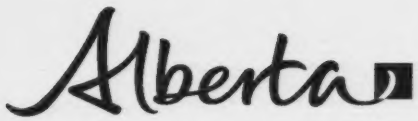
# Agriculture and Forestry

**Annual Report**
2016-17

Alberta
Government



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June 2017

# Agriculture and Forestry

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2016-17


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# Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 21 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

**This annual report of the Ministry of Agriculture and Forestry contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:**

- **the financial statements of entities making up the ministry including the Department of Agriculture and Forestry, regulated funds, and provincial agencies for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

# Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2017, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at June 2, 2017, with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

**Honourable Oneil Carlier**
Minister of Agriculture and Forestry

# Message from the Minister

This was a challenging year for many Albertans.

The low snow pack, coupled with a prolonged stretch of warm and dry weather in the spring, created extremely hazardous conditions that ultimately resulted in a devastating wildfire that destroyed approximately 2,400 homes and forced the evacuation of Fort McMurray. I want to take this opportunity to once again thank the emergency responders, wildland firefighters and countless volunteers and support organizations who came to the aid of the residents of the Regional Municipality of Wood Buffalo during their time of need. They did an incredible job under extraordinary circumstances and clearly demonstrated the strength of character and resilience of the people of our province.

As part of our ongoing efforts to enhance the safety of Albertans and their communities, our government passed important amendments to strengthen the *Forest and Prairie Protection Act* and regulation. The measures included stronger penalties for violations like abandoning campfires or burning during fire bans, and the ability to restrict higher risk activities during hazardous fire conditions.

While the wet weather in June and July helped reduce the wildfire risk, the conditions did create challenges for the agriculture community. Rain and snow during harvest resulted in approximately 900,000 acres of crops remaining in the fields during the onset of winter. Staff at the Agriculture Financial Services Corporation (AFSC) have been working closely with producers to provide interim financial assistance and to expedite insurance claims for the unharvested acres. Our government, AFSC and the federal government also worked closely to put an AgriRecovery program in place to assist southern Alberta cattle producers facing unexpected additional costs associated with a bovine tuberculosis investigation by the Canadian Food Inspection Agency.

Despite these challenges, there were some positive developments for both the agriculture and forest industries as agriculture and food exports reached nearly $10 billion, food and beverage manufacturing sales were over $14.5 billion, and forest product exports exceeded $3 billion.

Over the past year, our ministry has continued to focus on core programs that support wildfire management, research and innovation, improved market access, diversification, environmental stewardship, value-added industry development and food safety.

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We continue to explore new opportunities and trade partners for Alberta's agriculture and forestry products in the global market place. Trade agreements such as the Comprehensive Economic and Trade Agreement and international trade missions have demonstrated that there is a worldwide demand for the quality products and services that are grown, manufactured or developed in Alberta.

Another key priority for the ministry has been to work with our stakeholders to help address climate change and transition to a low-carbon economy. There are many examples of how agriculture and forestry are showing leadership and helping address greenhouse gas emissions such as providing agricultural offsets, improving environmental stewardship practices, planting millions of trees each year, and exploring bioenergy production opportunities. In October, our government announced an additional $10 million investment in programs that assist producers with the cost of improving on-farm energy management, purchasing solar equipment, improving irrigation efficiency and adopting new energy-saving technology.

As we move forward, our government is committed to working with our stakeholders to ensure the agriculture and forest industries are well-positioned for responsible and sustainable long-term growth. This includes the negotiation of a new agricultural policy agreement with the federal government, other provinces and territories to replace *Growing Forward 2*, which expires in the spring of 2018.

We will also continue to advocate on behalf of our forest industry in pursuit of a new Softwood Lumber Agreement to ensure fair and predictable market access for our lumber exports. And, we will continue to work closely with the agriculture community as we develop regulations that support farm and ranch workplace legislation.

Our government recognizes the importance of agriculture and forestry to a strong and diversified provincial economy. I look forward to maintaining a strong partnership with our many stakeholders as we work to address challenges and explore new opportunities that will contribute to our long-term success.

[Original signed by]

**Honourable Oneil Carlier**
Minister of Agriculture and Forestry

# Management's Responsibility for Reporting

The Ministry of Agriculture and Forestry includes:

- Department of Agriculture and Forestry
- Agriculture Financial Services Corporation
- Environmental Protection and Enhancement Fund

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results, and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Agriculture and Forestry. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- **Reliability** – information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- **Understandability** – the performance measure methodologies and results are presented clearly.
- **Comparability** – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- **Completeness** – outcomes, performance measures and related targets match those included in the ministry's Budget 2016.

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As deputy minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council, the President of Treasury Board and Minister of Finance, and the Minister of Agriculture and Forestry information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

**Beverly Yee**
Deputy Minister of Agriculture and Forestry
June 2, 2017

# RESULTS ANALYSIS

## Ministry Overview

Our ministry provides the framework and services necessary for Alberta's agriculture and forest industries to excel, inspire public confidence in the quality and safety of food and wildfire management, support environmentally sustainable production practices, and lead the collaboration that enables resilient rural communities.

The ministry is comprised of the Department of Agriculture and Forestry, the Agriculture Financial Services Corporation, the Environmental Protection and Enhancement Fund, as well as other entities including the Office of the Farmer's Advocate of Alberta, the Alberta Agricultural Products Marketing Council and the Irrigation Council.

### Department of Agriculture and Forestry

**Food Safety and Technology** – The Food Safety and Technology division protects public health through food safety and animal health systems and regulatory activities. Safety standards, surveillance systems and emergency response plans minimize the impact of diseases and allow for rapid response to emerging issues. Programs include the inspection of Alberta-licensed abattoirs and surveillance of bovine spongiform encephalopathy (BSE). Within the division, the Office of the Chief Provincial Veterinarian advocates the use of current scientific principles in the development of animal health legislation and disease control programs. The division also provides the technology and information management necessary to support ministry operations, including print and electronic publishing services.

**Industry and Rural Development** – The Industry and Rural Development division supports the agriculture industry and rural businesses. The division helps these businesses develop and commercialize new products and scale up their operations through such services as business incubation and value-added processing offered at the Food Processing Development Centre. The division provides research expertise and knowledge through multi-disciplinary project teams focused on specific industry challenges and opportunities. Research activities provide information and technology that is targeted, innovative and industry-oriented to capitalize on market opportunities. The division also administers 4H and FarmSafe programs to build life skills and leadership throughout rural Alberta and cultivate a culture of safety.

**Policy and Environment** – The Policy and Environment division supports the growth of Alberta's agriculture industry. The division identifies trade and market opportunities through market and trend analysis. It provides statistical information, data on costs and returns, and market analysis to support sound decision-making by both government and industry. By also supporting industry to adopt best practices in environmental stewardship, the division helps businesses position themselves to meet emerging expectations for sustainably produced products.

**Forestry** – The Forestry division manages and protects Alberta's forest resources through effective and efficient wildfire management, sustainable forest management, and maintenance of the health of our forests. The division supports and applies science-supported research, focusing on topics like climate change, biodiversity, hydrology and longterm planning, to ensure that continued economic and environmental values of forest resources are realized. Management of forest pests like mountain pine beetle and other invasive species further protects these values. The division is active in promoting market access for forest products and ensuring Albertans capture social and economic benefits from a robust forest industry.

## Other Entities

**Agriculture Financial Services Corporation** – The Agriculture Financial Services Corporation (AFSC) provides a wide variety of unique financial services, including lending capital and risk management products, to fit the business needs of producers, the agriculture industry, and small businesses in Alberta. Working closely with clients, many made in Alberta products have been developed to address existing gaps in the marketplace. The corporation has helped position Alberta as a leader in business risk management programs for crops and livestock and plays a pivotal role in the development and delivery of insurance, income stabilization, and disaster recovery programs. AFSC is responsible for implementing all portions of the multilateral *Growing Forward 2* Framework agreement that govern the management of agriculture risk in Alberta, including AgriInsurance, AgriStability, AgriInvest, AgriRecovery and the Wildlife Damage Compensation Program.

**Environmental Protection and Enhancement Fund** – The Environmental Protection and Enhancement Fund, established under the *Environmental Protection and Enhancement Act*, is used for environmental protection, enhancement and emergencies.

**Office of the Farmers' Advocate of Alberta** – The Office of the Farmers' Advocate of Alberta operates within the Ministry of Agriculture and Forestry by working closely with rural Alberta and provides the minister with information on issues concerning rural Albertans. The office exists so rural Albertans can make informed decisions, operate in a balanced legal environment, access information regarding industry policies and procedures, and have an outlet to settle disagreements.

**Alberta Agricultural Products Marketing Council** – The Alberta Agricultural Products Marketing Council advises the minister on matters related to the establishment, operation and management of the marketing boards and commissions established under the *Marketing of Agricultural Products Act*. The council also provides strategic support to marketing boards and commissions on board governance, leadership development, and regulatory and policy matters.

**Irrigation Council** – The Irrigation Council supports the Government of Alberta and irrigation districts by providing recommendations and advice, regulatory administration, and strategic funding decisions that facilitate the responsible allocation, management and use of water delivered through irrigation infrastructure.

**Dissolved Entities** – The Alberta Grains Council and the Alberta Livestock and Meat Agency Ltd. were dissolved in 2016-17. Programs previously delivered by these entities are now delivered by the Department of Agriculture and Forestry.

## Strategic Context

Alberta faced considerable challenges in 2016, including low oil prices and wildfires in the Wood Buffalo region. Despite these difficulties, the agriculture and forest industries continued to be a significant contributor to the provincial economy.

In 2016, the total food and beverage processing sales reached $14.6 billion, a nine per cent increase over 2015, and accounted for 23 per cent of Alberta's total manufactured goods, making food and beverage processing the largest manufacturing industry in Alberta in 2016. Higher sales in several areas of manufacturing including dairy products, meat products and grain and oil seed milling supported this increase.

For the forest industry, the revenues generated from wood product manufacturing were $3.8 billion, an increase of more than eight per cent over the previous year. After experiencing marked declines in 2015, wood product exports increased substantially to Japan and China. These markets have high growth potential, and would be vital for the sector's ongoing performance. The continued depreciation of the Canadian dollar contributed to increased export volumes to these countries.

More information and further statistics are available in Appendix A.

The combined efforts of hardworking Albertans and the ministry's programs and services are essential to contributing to the success of the agriculture and forest industries. However, in supporting the growth and diversification of these industries and the communities that rely on them, the ministry continues to face several risks that it is actively addressing, including:

- **Market Access** – While Canada continues to open new prospects through trade agreements and works to maintain and enhance market access, there remain obstacles to capitalizing on market opportunities, such as the anticipated renegotiation of the North American Free Trade Agreement, the ongoing softwood lumber trade negotiations and the uncertain future of the Trans-Pacific Partnership. These issues have the potential to negatively impact Alberta's trade in terms of the composition of our export destinations.
- **Competitiveness** – In a globalized world, Alberta finds itself in a fiercely competitive environment. Through innovative policies, technologies and infrastructure, other jurisdictions are creating business environments that allow companies to thrive economically and compete with Alberta-based companies. This increased competition could have implications in trade, employment and innovation.
- **Disease and Pest Outbreaks** – Disease outbreaks (e.g. bovine tuberculosis) or pest outbreaks (e.g. mountain pine beetle) pose significant threats to the industries and the safety of Albertans. The economic impact of an outbreak is potentially significant as the ministry would have to manage the impact of cross-border trade closures, including animal welfare issues, monetary losses and large scale depopulation.
- **Public Confidence** – Managing public expectations of ministry programs, services and initiatives presents challenges to inclusive stakeholder engagement and the overall public perception of the organization. Obtaining public support and input for key strategies is crucial to achieving the ministry's business plan outcomes and forms the foundation of program development and implementation.
- **Climate Change** – Extreme weather events create challenging decision-making situations for both the agriculture and forest industries. For example, extremely dry or drought conditions can begin slowly and subtly, and can have a significant impact as other more dramatic disasters. Such conditions can lead to water security issues that affect crop, forage, hay productivity and livestock water needs, as well as contribute to wildfire events that threaten Albertans, communities, forests, infrastructure and other values.

This annual report provides integrated results analysis for some of the most significant actions we took to achieving ministry outcomes and address ongoing challenges. Our consolidated accomplishments are presented from management's perspective according to our outcomes, key strategies and performance measures, as listed in the 2016-19 ministry business plan. Discussion of ministry performance measures focuses on significant variances from targets and the previous year's results.

# Discussion and Analysis of Results

## Financial Results of Operations

### Revenue

Ministry revenue was over $1 billion, $180 million higher than 2015-2016, and $137 million higher than budget.

**Compared to 2015-16 Actual**

- Higher revenues from the previous year are due to an $86 million increase in revenue from the Government of Canada. This is a result of an increase of $112 million in the federal government's contributions to AgriInsurance, Wildlife Compensation, AgriStability and AgriRecovery programs compared to last year. The increase was offset by a decrease of $25 million due to the expiry of the Softwood Lumber Agreement.
- Revenues from Premiums, Fees and Licenses increased by over $92 million compared to last year, including a $75 million increase in AgriInsurance and Livestock Insurance premiums and an $18 million increase in Timber Royalties and Fees.

**Compared to Budget 2016-17**

- Over $90 million higher revenue from the Government of Canada compared to budget due to an increase in AgriInsurance, premiums and AgriStability contributions for the year.
- Premiums, Fees and Licenses revenue was $50 million more than budget, due primarily to a $70 million increase in producer premiums for AgriInsurance and Livestock Insurance that was offset by a $22 million decrease in Timber Revenues and Fees.

### Expense

Ministry expense was over $1.6 billion, $21.5 million higher than 2015-2016 and $502 million more than budget.

**Compared to 2015-16 Actual**

- A total of $780 million in indemnity and agriculture income support payments were incurred compared to $605 million in 2015-2016. The $175 million payment increase was due to adverse weather conditions, early snow fall and a decrease in cattle prices.
- Forest-related expenses totalled $425 million, including wildfire management spending. This is a reduction of $162 million compare to 2015-2016. With the exception of the Horse River fire in the Fort McMurray area, the wildfire season was less severe than previous seasons. Wildfire suppression costs for the Horse River fire were reduced by $61 million to reflect that expenses are eligible for Federal Disaster Recovery Program.
- Provided $18 million in funding for the newly created Alberta Small Brewers Development Program.

**Compared to Budget 2016-17**

- Indemnity and agriculture income support payments were $270 million more than budget. Fluctuating commodity prices and variable weather conditions will create variances when budgeting the actual cost of indemnities and income support payments.
- Disaster costs related to wildfire suppression are not included in budget, as the severity of wildfire season can vary significantly from year to year. More than $240 million of disaster funding was required for wildfire suppression costs for 2016.

## *Outcome One: Alberta's agriculture and forest industries are positioned for increased growth*

Agriculture and forestry are Alberta's second and third largest resource-based industries, respectively. They are also the province's largest renewable resource industries and account for a significant portion of the employment and economic activity in rural communities.

The growth of these industries depends on collaboration with stakeholders by providing focused trade development services, conducting targeted research projects and developing new value-added products. The Government of Alberta is also working with the federal government and other provinces and territories to establish a new agricultural policy framework, secure and expand export markets and address trade issues.

**In working toward achieving this outcome, the ministry identified the following key strategies in its 2016-19 ministry business plan:**

***Key Strategy 1.1*** *– Provide focused trade development services for Alberta's agri-food and forest product companies to increase exports and enter new markets.*

Increased exports and access to new markets continue to be crucial for both the agriculture and forest industries. Working with industry, other ministries and the federal government, Agriculture and Forestry seeks to build Alberta's profile as a trade partner and a reliable supplier of premium agriculture, food and forest products by positioning these industries to be competitive, self-reliant and successful. This is accomplished by supporting trade, advocacy and market development efforts, and attracting and retaining investments in Alberta.

The federal-provincial-territorial *Growing Forward 2 (GF2)* initiative is the foundation of government agricultural programs and services focusing on innovation, competitiveness and market development. Agriculture and Forestry's *GF2* trade and investment projects for 2016-17 totalled $1.14 million, resulting in an estimated $119 million in sales reported by participating companies. These projects supported several industry and government initiatives, including incoming and outgoing government trade missions, seminars and media promotions.

In 2016-17, Agriculture and Forestry conducted 43 outgoing missions to and 47 incoming missions from Europe, East Asia, South Asia, the Middle East and the Americas. These 90 missions aimed to foster trade and build relationships, access new markets and improve distribution channels and supply chains. Additionally, the ministry organized three outgoing missions and 32 incoming programs dedicated to investment attraction.

Agriculture and Forestry also organized Alberta's participation at international trade shows and table-top events, including Taste of Canada Season 6 in Minneapolis, Institute of Food Technologists Expo in Chicago, Natural Products Expo West Anaheim, Private Label Manufacturers Association's Show Chicago, SIAL Paris 2016, International Food Expo London, Foodex Japan, Seoul Food Show, Food and Hospitality China, Food and Hotel Asia, Food Taipei, VIV Asia, Gulfood Dubai, Agra ME, Agrotech India, KazAgro Show Astana, BC Wood Global Buyers Missions and the Nanjing University Alberta Cup Furniture Competition.

One major challenge Alberta food processors face when accessing new markets is meeting the variety of requirements from regulators, certification bodies and customers. The ability to successfully identify and meet these requirements is fundamental to accessing markets and remaining competitive. Agriculture and Forestry provides resources that guide companies through the following steps: determining a company's ability to meet a requirement; addressing gaps;

integrating new components into their systems; maintaining and improving their systems; and proving they are meeting all requirements. In 2016-17, when companies found the resources overwhelming in its content, the ministry responded by developing and implementing an e-learning program to make the information easier to work through.

## Market Access

Working closely with the Ministry of Economic Development and Trade, Agriculture and Forestry sought to ensure new trade agreements would result in viable export opportunities for Alberta's agriculture and forest products. The ministry accomplished this by providing input regarding Alberta's agricultural priorities to federal negotiators.

On February 15, 2017, the European Parliament ratified the Comprehensive Economic and Trade Agreement (CETA). Similarly, the Government of Canada is moving forward with its own ratification process, which is anticipated to bring the provisional implementation of the agreement later in the year. Once fully implemented, close to 94 per cent of the European Union's (E.U.) import tariffs on Canadian agricultural products will come down to zero. This will enable Alberta's agriculture industry to increase exports to an international market with over 500 million consumers and reduce the risk of relying heavily on the United States (U.S.) market. The ministry does not anticipate that CETA will have a major impact on Alberta's forest industry. Alberta's only major forestry product export to the E.U. is pulp, which already enters duty-free.

The future of the Trans-Pacific Partnership, on the other hand, is uncertain following the formal withdrawal of the U.S. from the trade agreement in January 2017. In the absence of this trade agreement, Alberta will strengthen its advocacy effort by urging the federal government to conclude the Canada-Japan Economic and Partnership Agreement and the Canada-India Comprehensive Economic Partnership Agreement, as well as expanding market access in Southeast Asia.



### *Export market diversification*

*YEAR ENDING AT DECEMBER 31*

| Performance Measure 1.a | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Target 2016 |
|---|---|---|---|---|---|---|
| Alberta's agri-food exports by sector (in $ millions) | | | | | | |
| United States (U.S.) | 2,967 | 3,080 | 3,931 | 3,998 | 4,046 | 3,990 |
| China | 1,646 | 1,511 | 1,324 | 1,588 | 1,375 | 1,400 |
| India | 58 | 39 | 18 | 31 | 82 | 25 |
| European Union member countries | 280 | 248 | 307 | 382 | 405 | 320 |
| Japan | 1,346 | 1,289 | 1,186 | 1,101 | 1,226 | 1,230 |
| Mexico | 633 | 536 | 537 | 572 | 540 | 550 |
| Rest of the World | 2,280 | 2,002 | 2,410 | 2,510 | 2,318 | 2,490 |

***Source:*** *Statistics Canada; Agriculture and Forestry (results current as of May 4, 2017).*

- This measure represents the monetary value of Alberta's agriculture and food products leaving the province through customs for a foreign destination market. It is an indicator of our success in facilitating industry growth through export market diversification for Alberta's agriculture and food products.
- Diversification of export markets contributes to industry growth and to the provincial economy. A broader base of export market destinations allows

the industry to benefit from accessing emerging markets with high growth potential such as the European Union and India, while maintaining its traditional current markets (U.S., China, Japan and Mexico). By diversifying the agriculture and food export markets, the industry reduces demand uncertainties for agri-food products and raise the expected benefits of investing in agri-food processing.

- In 2016, Alberta agri-food exports were nearly $10 billion ($9.99 billion), a small decrease of two per cent from the previous calendar year.
- The growth in agri-food exports varies by export market destination. The combined agri-food exports to the U.S., Japan, India and the European Union member countries showed an increase of four per cent over the previous calendar year. For the U.S., there was a strong increase in exports of crude canola oil, dry peas, potatoes, honey, non-purebred live cattle and beef. The increase in exports to Japan resulted mainly from larger shipments of canola seeds, wheat, beef and pork, while larger exports of dry peas, lentils and crude canola oil accounted for the significant increase in exports to India. Exports to European Union member countries grew mainly due to higher exports of canola seeds, prepared animal feeds and whiskey. In contrast, the combined exports to China, Mexico and the "Rest of the World" declined by nine per cent. Lower exports of canola seed, wheat and beef to China and Mexico, as well as, reduced exports of wheat and other cereal grains to the "Rest of the World" contributed to the decline.
- Going forward, for attribution reasons, this industry metric has been re-classified more appropriately as a performance indicator to acknowledge the contribution of players other than ministry services in explaining Alberta's agri-food export performance. While Agriculture and Forestry's trade development services contribute to export performance, the ministry is not solely responsible for the overall success or lack thereof.



### *Composition of export products*

*YEAR ENDING AT DECEMBER 31*

| Performance Measure 1.b | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Target 2016 |
|---|---|---|---|---|---|---|
| Alberta's agri-food exports by sector (in $ millions) | | | | | | |
| Primary commodities | 5,529 | 5,061 | 5,475 | 5,380 | 4,956 | 5,553 |
| Processed or manufactured products | 3,681 | 3,644 | 4,238 | 4,802 | 5,036 | 4,452 |

***Source:*** *Statistics Canada; Agriculture and Forestry (results current as of May 4, 2017).*

- This measure tracks the type of Alberta's agri-food exports and provides an indication of whether the industry is shifting from primary commodities to processed products. Increasing the export share of processed products relative to primary commodities allows the industry to generate and retain a larger portion of revenues and economic benefits from global agri-food trade. While agri-food revenues are not wholly under ministry control, growth in revenue does act as an indicator of our success in trade development activities.
- Primary commodities are products that are in a raw or unprocessed state, such as crops or livestock. Processed or manufactured products involve refining primary commodities to increase value, such as turning raw canola into higher valued canola oil. The processing sector also strengthens a diverse range of secondary industries across the food supply chain, including transportation and logistics, refrigerated storage facilities, beverage manufacturing, wholesale and retail distributors, and the food service industry.
- In 2016, Alberta agri-food exports remained close to $10 billion, a slight reduction from the previous calendar year. Exports of processed products accounted for 50.4 per cent of the total, while the

primary commodity exports declined below one-half of Alberta total agri-food exports for the first time since 2010. The increase in processed products moderated the decline in primary commodity exports, causing the overall slight decline in total agri-food exports.

- Revenue from exports of primary commodities, at just under $5 billion in 2016, declined by eight per cent compared to the year before. The lower shipments (values and quantities) of wheat, barley, oats, linseed, hay and fodder, and other cereal grains contributed to the decline.
- In 2016, revenue from exports of processed or manufactured products, worth over $5 billion, grew almost five per cent over the previous year, primarily due to higher shipments (values and quantities) of crude canola oil, processed potatoes, malt, tallow, honey and processed meats.
- Overall, in 2016, the export trend continued to shift towards processed or manufactured products, narrowing the gap between primary and manufacture exports.
- Going forward, for attribution reasons, this industry metric has been re-classified more appropriately as a performance indicator to acknowledge the contribution of players other than ministry services in explaining Alberta's agri-food export performance. While Agriculture and Forestry's trade development services contribute to export performance, the ministry is not solely responsible for the overall success or lack thereof.



***Key Strategy 1.2** – Assist companies to develop new value-added products and scale-up in key growth commodity areas for target market segments.*

This key strategy is intended to grow a more resilient and diversified agri-food sector in Alberta. The province is a net exporter of raw agricultural commodities to other countries, where value is then added through processing. Value-adding provides opportunities for industries to attain the highest return for agriculture products and stimulates capital investment and innovation across the supply chain.

Agriculture and Forestry collaborated with several partners regarding value-added opportunities for hemp. For example, the ministry worked with the Canadian Hemp Trade Alliance to produce tools and information that industrial hemp producers, researchers and government, as well as manufacturing companies, rely on for business decisions.

In 2016, Agriculture and Forestry also played a substantial role in assisting a company to establish manufacturing capacity for food, fibre and other value-added hemp processing. The company expects its Alberta operations will produce 108,860 kg of hulled hemp seed per month, with scalable plans for six times that amount. In 2017, the company will begin small scale production of new food products within the Food Processing Development Centre (FPDC) to minimize start-up costs in infrastructure and equipment.

For the second year in a row, the FPDC received 130 applications for product and process development in 2016-17, which is an increase from 75-90 per year in the past. This includes applications from 30 start-up companies or new ventures without their own resources to develop and scale-up production. With support from the FPDC and other ministry resources, these companies are successfully growing their Alberta-based businesses.

The FPDC continues to be challenged by the high demand from entrepreneurs and food processors seeking support. In 2016-17, the government committed to investing $10 million to expand the FPDC and the Agrivalue Processing Business Incubator by 25,000 square feet. The expanded facility will be able to serve a larger and more diverse range of clients.

Agriculture and Forestry launched the Alberta Small Brewers Development Program, spending over $18 million in 2016-17 to support the growth and development of the small brewer industry in Alberta. The grant will give Alberta's small brewers – those selling no more than 300,000 hectolitres annually – the flexibility to invest in their businesses, like investing in scaling-up production capacity. As of March 31, 2017, there were 52 brewers and brew pubs participating in the program.

### *Product development and commercialization*

*YEAR ENDING AT MARCH 31*

| Performance Measure 1.c | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Target 2016-17 |
|---|---|---|---|---|---|---|
| Number of value-added agriculture products developed and successfully introduced to market with assistance from Agriculture and Forestry | 216 | 217 | 220 | 227 | 315 | 222 |

**Source:** *Agriculture and Forestry.*

- This measure tracks the number of value-added agriculture products developed and introduced into market with support from ministry staff. Value-added products refers to primary agricultural commodities that have undergone a change in physical state to achieve enhanced product value. The measure does not reflect economic impacts or benefits such as revenue growth, job creation, or investment that may have been generated from these products.
- The ministry facilitates new and diversified product development and commercialization by providing a unique combination of specialized facilities and scientific, technical and business development expertise, helping guide producers and agri-processors develop new and improved value-added agriculture products for local, domestic and export markets.
- In 2016-17, a total of 315 new value-added agriculture products developed were successfully introduced to market with assistance from Agriculture and Forestry, continuing the upward trend in results over the past eight years. The result exceeded both the target and prior year's result by approximately 40 per cent. The higher accomplishment is attributed to a combination of three factors:
  - continued improvement in uptake of ministry's product development and commercialization programs, which accounted for 50 per cent of these new products;
  - addition of value-added processing of livestock, previously under the responsibility of the former Alberta Livestock and Meat Agency, which accounted for 12 per cent of these new products; and
  - an increased uptake of the ministry's short-term consultancy services in the area of bio-processing. Nearly one-in-ten new products are bio-based. This area provides significant growth potential for bio-based products for industrial applications including construction, energy, and transportation.
- Value-added products from renewable biomass have the potential to create new energy, materials and chemicals, and service industries outside agriculture and forestry.
- Future performance may vary as the successful launch of new products may take several years after new product development work is completed. It typically takes between 18 months to two years for a product to develop from concept to commercialization.

***Key Strategy 1.3** – Collaborate with industry and post-secondary institutions on targeted research projects that enhance growth and environmental stewardship and promote innovation in the agriculture and forest sectors.*

The ministry regularly collaborates on research with industry and post-secondary institutions to strategically pursue opportunities and overcome challenges faced by the agriculture and forest industries. In a rapidly changing global innovation environment, strong collaborative research relationships ensure the industries' needs and perspectives guide research priorities. Research is also important for attracting investment, improving competitiveness and increasing the productivity and resiliency of these industries.

The Food Processing Development Centre and the Food Science and Technology Centre have successfully led applied research projects for many years, including six projects in 2016-17. These projects included the development of unique flavours in confections for export markets using Alberta grown ingredients, the identification of unique flavour characteristics of Alberta barley-finished beef, and the innovative use of Alberta pulses and pulse ingredients.

The ministry conducted several water and irrigation-related research projects in 2016-17, such as an investigation into the use of potash as a potential treatment for invasive mussels in irrigation infrastructure, the development of regionally applicable nutrient objectives (i.e. acceptable nutrient concentration) for small streams in Alberta's agricultural zone, and an investigation of sub-surface drip irrigation as an irrigation method for seed alfalfa. These projects address pests and improve water resource availability and efficiency.

Agriculture and Forestry was engaged in several forest watershed research projects in southern Alberta studying the effects of novel forest harvesting techniques on water yields and flow. The ministry also participated in a multi-agency, pan-Canadian Changing Cold Region Network investigating the effects of climate change on hydrologic functioning in the South Saskatchewan and Mackenzie River basins.

In the area of agronomic research in 2016-17, there were 49 collaborative, industry-focused projects, which was a significant increase from 25 projects the prior year. This includes research in technologies and processes for carbon capture models that would reduce energy requirements while maintaining successful greenhouse production. The ministry also conducted research on the mitigation of green mottle mosaic viruses in cucumbers grown in greenhouses, the results of which reduced losses from this persistent disease from 10 per cent to about one per cent.

Additional research evaluated the synergistic effects of advanced genetics and agronomic practices on wheat yield and quality, looking at the combined effect of fungicides, plant growth regulators and repeated application of nitrogen. Examples of this research include the assessment of new short-season soybean varieties production in Alberta by evaluating and investigating Alberta-specific agronomic practices, and the assessment of irrigation timing and application of fungicides to minimize Fusarium Head Blight damage in wheat.

Knowledge transfer of current research is of high value to Agriculture and Forestry. For example, more than 400 producers and industry agronomists attended the January 2017 Lethbridge Agronomy Update conference to hear about research advances from many organizations, including Agriculture and Forestry. For the livestock sector, the ministry provided support to developing the third annual Western Poultry Conference, which attracted 350 participants.

### International Year of Pulses 2016

The International Year of Pulses 2016 was declared at the 68th session of the United Nations General Assembly to heighten public awareness of the nutritional benefits of pulses as part of sustainable food production aimed toward food security and nutrition.

Pulses are the edible, dry seeds of peas, beans, lentils and chickpeas, which are a good source of protein. Globally, 68 million tonnes of pulse crops are produced each year. Of this, Canada produces approximately 5.7 million tonnes per year, and exports approximately 75 per cent of this to over 100 countries worldwide.

It is estimated that the global population will grow to nine billion by 2040, thus increasing the demand for protein. Alberta producers are responding to this opportunity with a 39 per cent increase in pulse crop seeded acres in 2016 over the previous year. Farm cash receipts, or the gross revenue of farm businesses, from the sales of pulses were just under $1 billion ($902.8 million) in 2016, compared to $489.4 million in 2015.

Agriculture and Forestry's Food Processing Development Centre partnered with the Alberta Pulse Grower's Commission and food processing companies to showcase the centre's technical expertise in utilizing whole pulses or parts of a pulse in 11 innovative products. These products are in various stages of commercialization, with one product already being sold in specialty retail.

### *Research investment by collaborators*

*YEAR ENDING AT MARCH 31*

| Performance Measure 1.d | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Target 2016-17 |
|---|---|---|---|---|---|---|
| Research and development investment by collaborators leveraged through ministry resources ($ million) | 6.4 | 4.8 | 5.2 | 5.3 | 6.3 | 5.4 |

***Source:*** *Agriculture and Forestry.*

- This measure tracks the amount of funds leveraged from outside sources for applied agricultural research and development, and provides an indication of the ministry's success in building strong research partnerships with external collaborators to ensure industry needs and views guide research priorities. External collaborators include industry organizations, producer groups, private companies, universities, government departments and agencies. The research and development projects covered under this measure include value-added processing, food safety surveillance, livestock development, crop diversification and environmental sustainability.
- In 2016-17, Agriculture and Forestry worked with external collaborators and industry to conduct 104 research and development projects, leveraging over $6.3 million to fund innovative solutions in the agricultural sector relating to productivity, competitiveness, profitability and resource management.
- The 2016-17 result is substantially higher than the prior year's result (20 per cent) and the target (18 per cent) due to the number and size of research and development projects.
  - The total number of projects increased to 104 from the prior year's total of 87, and was mainly driven by an increase in crop-related research activities, including the extraction of protein from pulses, wheat varieties, agronomic practices of faba bean production; and
  - The number of major projects, defined as projects for which an external collaborator has contributed more than $100,000 in financial support, increased to 20 from 14 the prior fiscal year. These major projects accounted for $4.2 million or 67 per cent of the 2016-17 results. Future results may fluctuate due to completion of these major projects.



## ***Key Strategy 1.4*** *– Advocate for a favourable Canada-US Softwood Lumber Agreement.*

In 2016-17, Alberta exported $700 million in softwood lumber to the United States. Forest resources form the basis of the economy for many of Alberta's rural communities. Extended litigation and the imposition of duties on softwood lumber resulting from a lack of an agreement may result in shift reductions and/or mill closures, which directly impact local employment, municipal tax revenues and other forestry operations (e.g. logging contractors, pulp mills and bioenergy facilities). Softwood lumber producers will also experience higher legal fees for the duration of litigation.

Negotiations have not successfully advanced since the Canada-U.S. Leader's Summit on June 29, 2016. To date, there has been little incentive for the U.S. to negotiate with Canada. The U.S. Lumber Coalition wants to significantly restrict Canada's market access, last tabling an offer where Canada's market share would start at 28 per cent and drop to 22 per cent over four years. Canada has made proposals to the U.S., based on a 31 per cent Canadian market share, that were rejected by the U.S. Lumber Coalition.

In April 2017, the U.S. imposed prospective and retroactive countervailing duties ranging from three to 24 per cent on Canadian softwood lumber exports. Anti-dumping tariffs will also be imposed later in 2017. The ministry remains committed to the industry and is working closely with partners to resolve the problem. Alberta participates in a federally-led ministerial level task force, a deputy minister level working group, and an assistant deputy minister team to understand the potential impact that a prolonged litigation will have on communities across Canada and explore potential mitigating actions. Additionally, Agriculture and Forestry continues to work with the Government of Canada and with companies in developing other international markets to export Alberta's forest products.

***Key Strategy 1.5*** – *Partner with federal, provincial and territorial governments to develop a Multilateral Policy Framework Agreement that supports growth in Canada's agriculture and food sector.*



Agriculture and Forestry is committed to working with federal-provincial-territorial (FPT) governments to develop a new five-year, pan-Canadian agricultural policy framework to replace *Growing Forward 2*. The agricultural policy framework is an agreement that outlines policy and program priorities that will be delivered by FPT governments, as well as funding for the agriculture industry. Agricultural frameworks have proven to be an effective way to coordinate Canada's FPT agricultural programs and services for over 15 years. The current *GF2* framework expires on March 31, 2018 and reflected a federal-provincial investment in Alberta of more than $400 million over the life of the agreement.

The FPT agriculture ministers endorsed the Calgary Statement at the conclusion of their annual meeting in July 2016. The joint statement identified six key priorities for the new agricultural policy framework, including:

1. markets and trade;
2. science, research and innovation;
3. risk management;
4. environmental sustainability and climate change;
5. value-added agriculture and agri-food processing; and
6. public trust.

Intergovernmental policy work involves many challenges as each federal, provincial and territorial government has its own mandate and priorities that may not necessarily align with the priorities of other jurisdictions. For example, during the development of the Calgary Statement, some governments advocated for the inclusion of seafood, aquaculture and/or rural development in the next policy framework. Through negotiations, jurisdictions came to an agreement on what was within the scope of the next framework for inclusion in the Calgary Statement. Another issue involves negotiating the suite of business risk management options, which is a cornerstone of the pan-Canadian agricultural policy framework. This includes assisting Canada's agriculture and food sector in managing risk from commodity price fluctuations, crops devastated by weather, animal disease outbreaks, etc.

Through the next policy framework, FPT governments commit to working together to enhance the industry's ability to compete, innovate, capture new opportunities, cultivate public trust, respond to new consumer demands and grow sustainably, while providing for provincial flexibility in how these outcomes are achieved.

Agriculture and Forestry is actively involved in negotiations to ensure that the province's priorities are reflected in the final agreements. Alberta initiated its stakeholder engagement in March 2017 through a public online survey hosted on **alberta.ca** and held four in-person, by-invitation sessions across Alberta with industry organizations. This first round of stakeholder engagement concluded in early May 2017.

Alberta anticipates signing the multilateral framework agreement in 2017 and a bilateral agreement with the federal government by March 31, 2018.

## *Outcome Two: Alberta has effective assurance systems that inspire confidence*

Effective assurance systems focus on protecting and enhancing human health, animal health and welfare, and Alberta's forests. Producing safe, high quality food and ethically-produced agriculture and forest products is key to gaining the trust and confidence of Albertans and consumers from other markets. The ministry also protects forest ecosystems, communities and infrastructure from the threat of wildfires. Maintaining these effective assurance systems depends on strong prevention, suppression and mitigation, and response and recovery measures.

**In working toward achieving this outcome, the ministry identified the following key strategies in its 2016-19 ministry business plan:**

***Key Strategy 2.1** – Implement recommendations from the Flat Top Complex Wildfire Review Committee.*

In 2013, the government committed to implementing all 21 of the Flat Top Complex Wildfire Review Committee recommendations to address current and emerging challenges facing wildfire management. Agriculture and Forestry has implemented several initiatives to support these recommendations:

- amended the *Forest and Prairie Protection Act* in December 2016, including associated amendments to regulations (completed in 2017). Some of the amendments are intended to reduce the risk of wildfires caused by human activities and include:
  - new enforcement capabilities with specified penalties or tickets for individuals who are careless with fires;
  - new administrative penalties for industrial-based infractions; and
  - starting the fire season one month earlier on March 1st to address the longer fire season;
- enhanced FireSmart initiatives (FireSmart Community Grant program; Forest Resource Improvement Association of Alberta FireSmart program; direct delivery of FireSmart initiatives);
- enhanced firefighting capacity (number of firefighters and duration of employment) and capability (e.g. type of resources, data management systems);
- updated fire control agreements;
- enhanced communication regarding wildfire information;
- increased role of fire behaviour specialists; and
- realigned provincial and area wildfire management reporting relationships.

As of March 2017, all 21 recommendations from the Flat Top Complex Wildfire Review Committee have either been completed or fully incorporated within Agriculture and Forestry's day-to-day wildfire management program.

## Horse River (Fort McMurray) Wildfire

On May 3, 2016, the Horse River wildfire threatened Fort McMurray and the surrounding region. This natural disaster illustrates the danger and destruction that wildfires pose to Albertans, communities, forests and other values, as well as the importance of effective forest and wildfire management strategies.

In 2016, Agriculture and Forestry tendered a third party review of the 2015 fire season, its wildfire management program and its response to the 21 recommendations provided in the Flat Top Complex Wildfire Review Committee Final Report. Given the significant impacts of the Horse River wildfire, Agriculture and Forestry also tendered an independent review of the 2016 fire season.

Agriculture and Forestry undertook steps to enhance multiple partnerships. Some examples include:

- continued development of strong relationships with the Royal Canadian Mounted Police, Alberta Justice and Solicitor General, and the Office of the Fire Commissioner to support wildfire investigations;
- continued implementation of the Indigenous and Northern Affairs Canada agreement with Agriculture and Forestry that provides wildfire prevention funding for First Nations lands in Alberta's Forest Protection Area;
- continue funding the Forest Improvement Association of Alberta to support industrial and community FireSmart initiatives throughout the province;
- having mutual aid agreements in place with most municipalities; and
- participating in multiple cross-training activities and mock exercises with municipalities to help prepare them for wildfires and to raise awareness and help prevent wildfires.

Agriculture and Forestry is also providing improved, timely and appropriate messaging to stakeholders, the public and all levels of government regarding wildfire hazards, activity and wildfire prevention initiatives. For example, the ministry enhanced the Albertafirebans.ca website and initiated a fire ban application to increase public and stakeholder awareness regarding fire restrictions and forest area closures.

### By the Numbers

- Nearly 590,000 hectares burned
- Approximately 90,000 people evacuated
- 1,590 wildland firefighters deployed*
- 18 airtankers deployed*
- 77 helicopters deployed*
- 269 pieces of heavy equipment utilized*
- 65 days to control the wildfire (May 1 to July 4)
- $3.7 billion in insured losses (approximately 2,400 homes and buildings burned)

*Based on early June 2016 figures when the maximum level of firefighting resources were utilized.

### Financial Cost

The Horse River wildfire was the costliest natural disaster in Canadian history. Despite this, forest-related expenses decreased by $162 million compared to the previous year. Agriculture and Forestry's costs related to wildfire suppression reflect the costs to prepare for and suppress wildfires only. These costs do not reflect the total costs the Government of Alberta incurred as a result of wildfire activity. Depending on the wildfire activity, other ministries may incur significant costs related to factors such as impacts to communities, health and welfare, infrastructure and the environment.

Wildfire costs vary year to year due to factors such as wildfire conditions, wildfire activity, location of wildfires and values at risk. In 2016, Alberta experienced localized wildfire activity, with one extreme wildfire event, the Horse River wildfire. Above normal wildfire conditions and activity was limited to April and May. In contrast, in 2015 the province experienced widespread severe wildfire conditions and above average wildfire activity across the province throughout much of the fire season.

### *Containment of wildfires*

*YEAR ENDING AT DECEMBER 31*

| Performance Measure 2.a | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Target 2016 |
|---|---|---|---|---|---|---|
| Percentage of wildfires contained before 10 a.m. the day following assessment | 97.9% | 98.3% | 99.2% | 92.7% | 97.1% | 96.8% |

***Source:*** *Agriculture and Forestry.*

- This performance measure reports how successful Agriculture and Forestry is in containing wildfires by 10 a.m. the day following assessment. Wildfires traditionally start in the mid-afternoon or early evening and can build in size and intensity of fire behaviour, making control more difficult. During the evening and overnight periods, temperature tends to decrease and relative humidity tends to increase, giving firefighters an opportunity to contain the wildfire by 10 a.m. Prompt containment reduces rapid spread, size and intensity of wildfire and impacts.
- The 2016 fire season started on April 1, 2016, and ended on October 31, 2016. During this period, 97.1 per cent of wildfires were contained before 10 a.m. the day following assessment, which is slightly higher than the forecasted target of 96.8 per cent. The 2016 result exceeded the prior year's result by over four per cent, which was primarily due to the reduction in the number and size wildfires in the reporting period. Almost all the remaining 2.9 per cent of wildfires were contained between two and five days following assessment. External factors influencing suppression efforts include location, number, size of wildfires and weather.
- The wildfire activity for the 2016 fire season was much lower compared to the corresponding five-year averages in terms of number and size:
  - the ministry responded to 1,340 wildfires, which was fewer than the five-year average of 1,454;
  - eleven large wildfires, defined as greater than 200 hectares, were detected, which was lower than the five-year average of 29.
- However, the total burned area was approximately 611,464 hectares in 2016, which surpassed the five-year average of approximately 340,257 hectares burned.
- Alberta experienced severe wildfire hazard levels in the spring of 2016 due to prolonged hot, dry and windy conditions. During this period, the Horse River wildfire started. This wildfire burned into Fort McMurray and surrounding communities. It is the third largest wildfire in Alberta's history at just under 589,000 hectares.
- Going forward, the wording for this measure's target setting procedure has been revised to "rolling average of the preceding five years' results". The revised version provides clarity and ensures consistency with the reporting methodology.

***Key Strategy 2.2** – Develop and implement risk and science-based inspection and surveillance systems and policies in response to existing and emerging food safety and animal health risks.*

Food safety and animal health are shared responsibilities among provincial and federal governments, as well as industry and consumers. With regards to the complex issue of food safety, Agriculture and Forestry's role is to obtain consistency and compliance through inspection and enforcement activities at provincially-licensed meat and dairy facilities. The ministry also conducts surveillance to monitor existing and emerging food safety and public health risks, and supports industry viability and market access.

Agriculture and Forestry supports enhanced food safety process controls by promoting a positive culture of food safety and facilitating the adoption of internationally accepted food safety best practices and standards. In support of food safety, over $3.5 million in *GF2* grants went to 568 producers, 57 processors and 26 delivery agents in 2016-17. These grants funded new equipment and upgrades, food safety training, workshops and audits, and delivery of on-farm and post-farm food safety programs.

A key challenge for the ministry is the emerging and growing prevalence of food-related hazards. For example, Alberta has seen four foodborne illness outbreaks of *E. coli* O157:H7 in three years associated with pork products. This known pathogen in raw beef products has not usually been associated with pigs. Other *E. coli* strains have also gained attention after causing foodborne-illness outbreaks.

Agriculture and Forestry is addressing these challenges through two studies at provincially licensed meat facilities in 2016. The first survey focused primarily on O157:H7, non-O157 *E. coli* strains and *Salmonella* in beef carcasses. The survey data was used to advance food safety practices, inform decisions on implementing mitigation measures, and develop options for ongoing monitoring programs for the safety and quality of products. The second study focuses on *E. coli* O157:H7 in swine and on pork carcasses to understand if prevalence has changed and to assess the source of the pathogen on the products and options for control. This study is expected to be completed in spring 2018.

To further inform decision-making and policy options, the ministry provided targeted capital investment of $776,000 to the Agri-Food Laboratories. This investment included money for capital equipment to advance testing capabilities and broaden the scope of tests provided. For example, acquisition of whole genome sequencing equipment will assist in more accurately and efficiently detecting the source of food-borne illness outbreaks and provide more comprehensive information on microorganisms.

Another way Agriculture and Forestry is addressing this key strategy is through its surveillance and traceability systems. Knowing when and where diseased and at-risk animals have been reduces response times during ongoing animal disease control programs as well as during crises. The result is a system that minimizes the economic, environmental and social impacts from such events. The ministry provided approximately $1.5 million in grants to industry participants through *GF2* traceability programs in 2016-17.

However, the traceability system faces some challenges, including gaps in the database for locations of all livestock in the premises identification program and a lack of comprehensive movement reporting for all livestock species. For example, some non-traditional farmers (e.g. raising livestock for personal use) are unaware of the legislated requirement to comply with the premises identification system. Overall, given the dynamic nature of agriculture in Canada, there is difficulty in accounting for all livestock in the province. However, Alberta continues to be a leader in premises identification in the country, bolstered by legislation and ministry resources and tools.

The ministry addressed these challenges by collaborating with livestock industry participants and providing cost-shared assistance to encourage adoption of new, innovative traceability technologies. The ministry supported six industry groups to provide extension services and/or deliver traceability workshops focused on increasing producers' knowledge of the regulatory requirements and benefits of livestock traceability, and enhancing their capabilities to successfully implement quality traceability systems in their operations. The ministry also plays a key role in federal-provincial-territorial working groups, which are proposing new federal laws requiring more comprehensive animal movement reporting nationwide.

In 2016-17, compliance activities resulted in 16.8 per cent more land locations registered in the premises identification database, bringing the total number of registered premises to over 38,250. To enhance movement tracking and reporting, the ministry provided approximately $393,000 to 20 feedlots and 80 cow-calf and sheep operations to acquire radio-frequency identification technology.



## Bovine Tuberculosis

In late September 2016, the U.S. Department of Agriculture notified the Canadian Food Inspection Agency (CFIA) that a case of bovine tuberculosis (TB) had been detected in a cow from Alberta when it was slaughtered in the U.S. As of March 31, 2017, there were six confirmed cases of bovine TB found in cows from the same herd, including the original cow that was slaughtered in the U.S. Additionally, more than 70 premises in Alberta and Saskatchewan have been quarantined to prevent the potential spread of the illness and maintain the integrity of the food safety system. About 10,500 cattle on 18 premises were culled.

The ministry undertook several initiatives to manage and mitigate the impacts of this problem:

- established an AgriRecovery program that provided $14.5 million in total ministry financial assistance to affected producers as of March 31, 2017;
- provided staff to support and accelerate the CFIA investigation process, including veterinary, occupational health and safety, and administrative support;
- worked closely with colleagues from Alberta Health and Alberta Health Services to ensure availability of physical and mental health support; and
- worked closely with colleagues from Alberta Environment and Parks to understand potential wildlife issues and identify surveillance opportunities in wildlife.

The next stage of the investigation will focus on trace-in activities, which involves tracing animals that moved into the herd where bovine TB was found. This work is done to assist in determining where the infection may have originated. Initial assessments of animal trace-in movement records suggest an extensive number of animals and herds involved. As a result, it is expected that this investigation will continue through the remainder of 2017 and involve herds across a significant area of the western provinces.

### *Compliance with slaughter requirements*

*YEAR ENDING AT DECEMBER 31*

| Performance Measure 2.b | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Target 2016 |
|---|---|---|---|---|---|---|
| Percentage of active provincial licensed abattoirs that meet provincial food safety slaughter requirements | n/a | n/a | 93% | 84% | 86% | 100% |

***Source:*** *Agriculture and Forestry.*
***Note:*** *Results prior to 2014 are not comparable because the measure has been changed to focus on the department's role in animal slaughter regulatory oversight.*



- This measure tracks the percentage of active Alberta-licensed abattoir facilities that meet or exceed provincial safe animal slaughter requirements at all times and at each scheduled inspection under the *Meat Inspection Act* and Meat Inspection Regulation. An appropriate and transparent regulatory environment is essential in maintaining continued excellence in food safety at the animal slaughter level.
- The scope of provincial animal slaughter requirements encompasses food safety risk factors associated with all aspects of the animal slaughter business: slaughter equipment, protection from contamination, personnel hygiene practices, storage of meat products, ventilation and lighting, and maintenance of written procedures for all processing operations.
- Each facility is required to demonstrate continued knowledge of and strict adherence to all animal slaughter practices at slaughter day inspections. Animal slaughter inspection staff track and respond to areas of non-compliance by issuing a corrective action report when inspections reveal that slaughter practices or operating procedures create a potential food safety risk.
- Approximately 86 per cent (95 out of 110 abattoirs) of the inspected Alberta-licensed abattoirs met or exceeded provincial safe animal slaughter requirements at all slaughter inspections. In total, 6,218 slaughter inspections were completed at 110 active Alberta-licensed abattoirs. Fifteen of these abattoirs did not meet slaughter requirements during at least one of the inspections and were issued corrective action reports for non-compliance in minor correctable operating procedures incidences.
- This result is a two per cent improvement over the prior calendar year's result of 84 per cent and can be attributed to the ministry's continued education and regulatory efforts.
- The 2016 result is 14 per cent below the 100 per cent target. The reasons for this variance included minor, correctable actions (e.g. facility maintenance, and maintenance of written product recall procedures) that were resolved and did not affect food safety. Follow-up inspections of the abattoirs confirmed that all 15 abattoirs addressed all areas of non-compliance that were noted during their respective inspections. These 15 abattoirs are being monitored to ensure continued compliance and to reduce the risk of lapsing into non-compliance in future years. Risk-based assessments were conducted on all meat products associated with these 15 abattoirs to confirm all meat products were safe for further processing and human consumption. The continued advancement of a food safety culture through regulatory activities, as well as education and monitoring programs, will help the ministry drive toward this target of 100 per cent and provide consumer protection.
- Going forward, the meat processing function has been added to create a consolidated measure that encompasses the safe food production continuum for which Agriculture and Forestry has an oversight responsibility.

***Key Strategy 2.3*** – *Enhance provincial plant health pest surveillance to improve early identification and pest detection capabilities and better manage pest and disease threats.*

Agriculture and Forestry provides diagnostic services and conducts surveillance of plant diseases and crop pests, including insects, diseases and weeds. These activities provide information about the incidence and geographic distribution of potential threats to crops, which is vital for effective risk management and ensuring profitability. Left unchecked, diseases and pests can spread, causing serious economic damage and rendering some crops uneconomical to grow.

Agriculture and Forestry has a strong weed surveillance program involved in the monitoring and surveillance of invasive weeds. A key initiative in 2016-17, in collaboration with Alberta Environment and Parks, was the increased surveillance and management of two invasive aquatic weeds: flowering rush and Phragmites. These invasive aquatic weeds can impact waterways and pose a significant threat to Alberta's 7,900 kilometres of irrigation canals and pipelines.

In 2016, the ministry monitored more than 17 insect pests, providing both forecasting and real-time updates on pests with significant economic consequences. This information assisted in raising awareness among crop producers of the presence and need to monitor pests in their crops, and assisted in the decision-making process for using pest control products.

Despite budgetary pressures, the ministry's Agricultural Service Board Program granted $11.4 million of funding to 70 municipal Agricultural Service Boards (ASB) to support surveillance and enforcement activities for several agricultural legislation, including the *Weed Control Act* and the *Agricultural Pests Act*. In 2016, ASBs dealt with over 10,000 prohibited and noxious weed infestations and inspected over 12,000 fields for pests such as clubroot, *Fusarium graminearum*, rats and other pest and disease threats. Over 650 full and part-time staff organized and directed these weed and pest control activities.

Agriculture and Forestry also faces the ongoing challenge of clubroot and blackleg diseases in canola, which continue to evolve and evade existing control options. The potential economic impact of these diseases is substantial, with canola seed being the second largest crop produced in Alberta after wheat (in tonnes), amounting to $2.7 billion (including cake and meal and oils) in agricultural exports in 2016. Surveillance activities monitor the range and severity of the diseases, profiling how these diseases are evolving, and communicating the changes to both industry and the farm community. In conjunction with industry, academia and federal researchers, the ministry profiles the evolving diseases and evaluates management options.

***Key Strategy 2.4*** – *Develop a strategy to enhance Alberta's animal welfare system, safeguarding the basic needs and protection of all animals, and enabling continuous improvement of farmed animal welfare.*

A sound animal welfare system ensures animals are protected from distress, abandonment and improper care and sets the stage for continuous improvement of their welfare. Agriculture and Forestry plays a key role in all aspects of farm animal welfare and oversees the legislation governing the protection of all animals in the province. The ministry proposed that a collaborative provincial strategy that establishes long-term strategic outcomes and clarifies roles and responsibilities is fundamental to ensuring a coordinated and effective animal welfare system in Alberta.

In 2016-17, consultations were completed with select Government of Alberta departments that have a role or connection to animal welfare, with a focus on a framework and goal of arriving at a government position for animal welfare. Options for further consultation and engagement across a range of stakeholders and animal welfare topics were brought forward. The overall approach on developing the strategy is being considered at this time.

***Key Strategy 2.5*** *– Collaborate with Health, Alberta Health Services and stakeholders to develop and implement a strategy to address antimicrobial resistance through stewardship, surveillance, research, innovation, and infection prevention and control.*



The continued emergence of antimicrobial resistance (AMR) poses a real and significant threat to both human and animal health and wellbeing. It is a global problem with the World Health Organization, World Economic Forum and numerous countries identifying it as a serious threat to global public health.

Antimicrobials are used in human and veterinary medicine for similar reasons. In veterinary medicine, using antimicrobials to target specific microbial pathogens is an effective way to combat infectious disease in livestock, especially when effective vaccines are not available. However, inappropriate use of antimicrobials can lead to an unnecessary increase in resistance in bacteria. A critical increase in AMR could result in limited or denied access to antimicrobials for animal agriculture, which has animal health and welfare considerations, as well as economic consequences for the industry.

This key strategy aims to develop a provincial approach to AMR. The goal is to:

- establish leadership and governance structures;
- reinforce and educate the public, prescribers and other antimicrobial users about the importance of stewardship;
- strengthen province-wide surveillance capabilities to detect antibiotic resistant organisms (AROs) and to collect antimicrobial use data in human health, veterinary and agricultural settings; and
- conduct further research on antimicrobial use and AROs.

In support of this strategy, Agriculture and Forestry worked on three AMR activities during 2016-17:

1. **Antimicrobial Position Development** – Agriculture and Forestry engaged in interviews with a broad range of agriculture stakeholders including industry, veterinarians and retail medicine outlets to identify their current level of awareness, engagement and activities as well as identification of issues and concerns.
2. **The Alberta Veterinary Medical Association One Health Antimicrobial Workshop** – In November 2016, the ministry worked with the Alberta Veterinary Medical Association to bring together a broad range of stakeholders across the human and animal health spectrum for a two-day workshop. This improved the level of awareness and understanding of the various perspectives to enable a more fulsome, one-health approach in development of strategies and solutions to minimize or reduce the rate of AMR.
3. **The Pan-Canadian AMR Framework and Action Plan** – The ministry has been deeply engaged in the development of a pan-Canadian framework. The framework is a federal document that will be presented to the World Health Assembly toward the end of May 2017. Agriculture and Forestry also coordinated between various government and industry representatives on task groups that provided input into the four pillars of the framework: surveillance, stewardship, infection prevention and control, and research and innovation.

Both the interviews and the workshop are noteworthy accomplishments as they provide a foundation for understanding issues upon which to develop policy options in response to proposed federal regulatory and policy changes. Among these potential changes is the Health Canada proposal to move all medically important antimicrobials to the prescription drug list. This will require all animal owners to have a valid veterinary-client-patient relationship to obtain a prescription for antimicrobials that treat bacterial infections.

## *Outcome Three: Alberta's agriculture and forest industries are environmentally responsible and sustainable*

Albertans have always been concerned about the potential environmental issues related to agriculture and forest activities on soil, water, air and biodiversity as well as the need for effective management of these resources. Through collaboration with industry and government partners, the ministry explores environmentally responsive solutions that contribute to competitiveness and build on opportunities to manage risks, address public concerns and improve efficiencies. The ministry also supports environmental research on emerging technologies and practices.

**In working toward achieving this outcome, the ministry identified the following key strategies in its 2016-19 ministry business plan:**

***Key Strategy 3.1*** *– Facilitate environmentally responsible forest management and on-farm production practices to improve stewardship and reduce the impact of climate change as part of the implementation of Alberta's Climate Leadership Plan.*

Agriculture and Forestry works with industry and government partners to implement innovative environmentally-responsive solutions, improve environmental stewardship and communicate its responsible stewardship and management of Alberta's natural resources and environment. The ministry focuses on the agriculture and forest industries' proactive adoption of new technologies and practices, which can position an industry to grow, improve its competitiveness and meet consumer expectations.

In October 2016, as part of Alberta's Climate Leadership Plan, the ministry announced an additional $10 million in funding over two years to enhance existing *GF2* programs for on-farm energy efficiency and renewable energy. For example, Agriculture and Forestry supported the Alberta Solar Society in delivering workshops across Alberta to increase the awareness of solar electricity generation. There are also incentives available for producers through the On-Farm Energy Management and On-Farm Solar programs. In the past year, over $9 million and $440,000 in grants were delivered through these programs, respectively. The ministry is also conducting research, in collaboration with industry partners, to identify new options for producers to reduce energy use and costs. Some topic areas include heat exchange to re-capture heat normally wasted and net-zero barn technology to better manage facilities.

Agriculture and Forestry works collaboratively with other ministries through the leadership of the Land Use Secretariat to develop and implement regional plans, which provides Alberta's direction on land and resource development, including forests. Through sustained economic activity and the management of environmental pressures, the ministry supports the continued development of competitive agriculture and forest industries.

## Caribou Range Planning and Alberta's Forests

With woodland caribou listed as threatened under the provincial *Wildlife Act* and the federal *Species at Risk Act*, the Government of Canada requires Alberta to have action plans for the province's boreal and mountain caribou populations in place and approved by October 2017 and May 2019, respectively. Agriculture and Forestry is working closely with Alberta Environment and Parks in the development of these plans to ensure that they balance the needs of caribou with economic and social interests of maintaining manufacturing facilities and their associated workforce.

Caribou ranges cover approximately 23 per cent of Alberta's forested landscape and have significant levels of overlapping natural resources. Currently, all of the lands within caribou ranges contribute to establishing the annual allowable cut for Alberta's forests.



### *Environmentally sustainable agriculture practices*

*YEAR ENDING AT MARCH 31*

| Performance Measure 3.a | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Target 2016-17 |
|---|---|---|---|---|---|---|
| Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey) | n/a | 56% | n/a | 55% | n/a | n/a |

***Source:*** *Agriculture and Forestry.*
***Note:*** *Survey is conducted every second year.*

- Environmentally sustainable agricultural practices are farming techniques that are economically viable and protect the environment. The Environmentally Sustainable Agriculture Tracking Survey is used to indicate whether producers in Alberta are adopting management practices and making continuous improvements that protect the environment. This survey measures the progress related to adopting 40 key environmentally sustainable agriculture practices by Alberta producers within the areas of manure management, water quality and quantity, wildlife habitat conservation, grazing management, general practices, agriculture waste management, energy use and climate change, and soil conservation.
- As there were no new data available for this biennial survey, results analysis for this performance measure is not applicable. The most current result available for this measure is 55 per cent, which was first published in the 2015-16 Agriculture and Forestry annual report. Ministry staff are working on the next survey for 2017-18 and the target and related result will be reported in the 2017-18 Agriculture and Forestry annual report.
- Currently, the department is reviewing the Environmentally Sustainable Tracking Survey to ensure survey objectives take into consideration the strategic context we are working in, as well as ensuring the government priorities on climate change and energy efficiency are strategically addressed.

***Key Strategy 3.2*** *– Expand the network of monitoring sites to assess climate change effects on the health of Alberta's public forests.*

Agriculture and Forestry and the Canadian Forest Service have worked together since 2010 on the "Climate Impact on the Productivity and Health of Aspen (CIPHA)" study intended to monitor the health and productivity of aspen in relation to the climate. Aspen trees are some of the first species of trees to exhibit signs of stress due to changes in growing conditions such as warmer temperatures and less moisture. Alberta aspen have been significantly impacted over the past 16 years with an increase in aspen dieback and mortality. Based on information gathered through CIPHA, Alberta has been affected more severely than Saskatchewan. This was due to an increase in the occurrence of forest damaging weather events such as hail, as well as an increase in forest damage due to insects that are normally secondary pests, such as the spruce beetle and the eastern larch beetle.

In 2016-17, province-wide surveys were conducted to locate and assess potential sites to set up the needed plots for the CIPHA study. No changes to current forest management policies and planning have been implemented to date as full-scale data collection has not begun.

**Mountain Pine Beetle**

Alberta is still experiencing an expansion of Mountain Pine Beetle (MPB) populations into the pine forests along the eastern slopes of the Rocky Mountains that could expand east to the boreal forest. MPB remains a priority for the ministry as evidenced by the $28.5 million spent for the 2016-17 survey and control activities that are part of our continued, aggressive efforts to suppress and mitigate the risk. For example, Agriculture and Forestry is working to reduce the susceptibility of pine forests before MPB arrives by increasing annual allowable cuts. Removing susceptible stands helps mitigate the establishment, growth and spread of the MPB population.



### *Forest management: timber harvest*

*YEAR ENDING AT MARCH 31*

| Performance Measure 3.b | Actual 2011-12 | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Target 2015-16 |
|---|---|---|---|---|---|---|
| Sustainable timber harvest by | | | | | | |
| Annual allowable cut (million cubic metres) | 30 | 30 | 31 | 31 | 31 | *Harvest does not exceed annual allowable cut* |
| Harvest (million cubic metres) | 20 | 20 | 21 | 21 | 22 | |

***Source:*** *Agriculture and Forestry.*

- This measure reflects Agriculture and Forestry's ability to manage Alberta's timber resources in a sustainable manner. It indicates the status of Alberta's timber supply by comparing the timber harvest with the long-term annual allowable cut (AAC), as set by the ministry. The target is to keep Alberta's timber harvest at or below the AAC. The majority of Alberta timber dispositions are in effect for more than one year and harvest is balanced over a five-year period. Yearly harvest levels may be greater than the AAC. However, to ensure sustainability, harvest levels cumulated over a five-year period do not exceed five times the AAC within each planning area.
- As the harvest level does not exceed the AAC, additional results analysis is not provided.

### *Forest management: reforestation*

*YEAR ENDING AT MARCH 31*

| Performance Measure 3.c | Actual 2011-12 | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Target 2015-16 |
|---|---|---|---|---|---|---|
| Percentage of forest regrowth as a result of reforestation | 97.6% | 97.3% | 97.9% | 97.5% | 98.3% | 97.6% |

***Source:*** *Agriculture and Forestry.*

- This measure tracks the rate of forest regrowth following timber harvest, ensuring sustainability of Alberta's forest resources. Reforestation is required by law and is a critical component to forest sustainability following industrial harvesting. Monitoring reforestation in relation to provincial standards is an essential part of forest sustainability and assures the continued flow of economic, social, and environmental values Albertans expect from their forests.
- As there was no significant variance from target or the previous year's results, additional results analysis is not provided.



***Key Strategy 3.3*** *– Support the development of innovative processes and technology applications to transform agriculture and forest biomass and waste streams into renewable energy and value-added products.*

Opportunities exist to diversify Alberta's economy by transforming agricultural and forest biomass and organic waste streams into bio-fuels, renewable bio-based products, biochemicals and other natural ingredients. These waste materials, such as livestock manure and wood wastes, are typically destined for landfills. Replacing petroleum-derived products with bio-based alternatives reduces Alberta's carbon footprint, which supports Alberta's Climate Leadership Plan and promotes social license.

Agriculture and Forestry works with Alberta-based biomaterial companies to utilize low-value biomass residues and waste streams to generate green, renewable electricity and transportation fuels, increase the uptake of bio-based product development and processing, and to improve waste management strategies from landfill diversion.

Many Alberta mills co-generate electricity by using their own biomass by-product, which reduces the demand on Alberta's electrical power grid. For example, wood shavings and hog fuel, which can be made up of bark and/or sawdust, are used to produce heat and power. Alberta's forest industry produces 800,000 dry tonnes of wood waste per year which currently is being used for producing power, heat and pellets. Despite this, there continues to be a surplus of wood waste across the province. There may be an opportunity to use this wood waste as an alternative to coal and natural gas. In 2016-17, Agriculture and Forestry supported and conducted operational research to test the viability of wood waste as fuel for existing coal-powered plants.

Another achievement for 2016-17 includes the ministry providing technical assistance to over 15 companies to develop value-added products from biomass and wastes. These companies are finding success with one Alberta-based company having a grand opening for their new commercial processing extraction facility and another company actively looking to expand in the province.

The ministry collaborated with Alberta Innovates to publish a white paper on biogas production in Alberta, which looked at the opportunities and challenges in the sector, including the effect of carbon pricing. The ministry also worked with Provision Coalition and Enviro-Stewards from Ontario, who are working with two bakeries and a yeast producer in Alberta to help them become more competitive and resilient through efforts to minimize food waste and increase energy and water-use efficiency.

***Key Strategy 3.4*** *– Support irrigated agriculture to increase water-use efficiency through improved water application technology, conveyance infrastructure and management techniques.*

The ministry helps the irrigation sector capitalize on enhanced economic opportunities, operate as good environmental stewards and contribute to vibrant rural communities. Continuous improvement of water-use efficiency allows irrigators to grow more crops with less water. This adaptation contributes to the sector's social license and ensures water is available for additional economic development, delivery to rural Alberta communities and healthy aquatic ecosystems in southern Alberta.

Results on improvements in water application technology, conveyance (i.e. transportation) infrastructure and management techniques are tracked, compared to goals outlined in the ministry's Irrigation Strategy, and publicly reported on the ministry's website at **www.agric.gov.ab.ca**. The Irrigation Strategy guides the irrigation sector through research, information development, policy development and programming, and includes several targets to make Alberta a global leader in the efficient, productive and sustainable use of water resources.

In 2016-17, $19 million went toward irrigation rehabilitation, to improve the efficiency of water conveyance infrastructure. Under *GF2*, an additional $3.4 million was disbursed to improve on-farm water-use efficiency of irrigation. This on-farm programming was complemented by over $900,000 of Climate Leadership Plan funding to increase the energy efficiency of on-farm irrigation. Overall, this funding supported programming that resulted in over 500 projects that improved water-use and energy-use efficiency.

These efforts, along with improvements in conveyance efficiency supported by irrigation districts, will help achieve the targets set out in the Irrigation Strategy. For example, conversion of open canals to pipelines to reduce water conveyance losses continues to progress towards the target of 75 per cent of the 7,900 kilometres of irrigation canals by 2035. In conjunction with partners, approximately 51 per cent of irrigation canals have been converted as of the 2015-16 monitoring year (the latest data available).

## *Outcome Four: Alberta has thriving rural communities*

The population of Alberta's rural communities grew to 667,803 in 2016, an increase of 8.6 per cent from 2011. This reflects the continued resiliency and success of rural Alberta, which is strengthened by the dynamism of the agriculture and forest industries. Positioning these communities to thrive requires learning and skill development programs, financial services and supports, and enhanced farm safety. Agriculture and Forestry provides resources and tools that are effective in ensuring rural Albertans take full advantage of opportunities and build strong, self-reliant communities.



**In working toward achieving this outcome, the ministry identified the following key strategies in its 2016-19 ministry business plan.**

### *Key Strategy 4.1 – Enhance lending to facilitate the success of agricultural new entrants and intergenerational transfers.*

The Agriculture Financial Services Corporation (AFSC) has been working to improve its programs by enhancing and expanding their effectiveness, especially with regard to agricultural new entrants and intergenerational transfers.

In 2016-17, AFSC proposed changes to both the eligibility and level of financial incentive available and the lending policies to beginning farmers. Proposed improvements included increasing the maximum loan size, establishing the incentive based on a portion of interest costs, and refocusing a rebate to new entrants and young producers (i.e. under 45 years old or fewer than three years' experience).

However, implementation of these proposed program changes has been put on hold pending completion of a strategic review of AFSC's lending mandate as recommended by the Office of the Auditor General in October 2016. Proposed changes to AFSC's programs, including a review of the lending limit, will be re-assessed as part of this overarching review and is scheduled to be completed by March 2018 for implementation in 2018-19.

### *Investment in rural businesses*

*YEAR ENDING AT MARCH 31*

| Performance Measure 4.a | Actual 2012-13 | Actual 2013-14 | Actual 2014-15 | Actual 2015-16 | Actual 2016-17 | Target 2016-17 |
|---|---|---|---|---|---|---|
| Total investment leveraged in rural businesses facilitated through Agriculture Financial Services Corporation lending services ($ million) | 663 | 644 | 716 | 697 | 526 | 773 |

***Source:*** *Agriculture Financial Services Corporation.*
***Note:*** *Values reported for investments are a proxy measure based on approved loans. Not all loans are disbursed, and in some cases, there may be timing differences between approval and disbursement of loans.*

- This measure tracks success of AFSC in ensuring farm and rural businesses can access capital to foster development and growth. AFSC facilitates capital investment in rural business development through its lending products, services and partnerships. Total dollar investment in agri-businesses and farm loans serves as a proxy value for investment based on loans approved. Dollar investment is any fund (i.e. debt, equity, or investment) that would be used to support the growth of farming and commercial activities.
- The $526 million in investments leveraged in rural businesses in 2016-17 was substantially below the target of $773 million (-32 per cent) and considerably below the 2015-16 result of $697 million (-25 per cent).

  There are several reasons contributing to the variance including:
  - Increasing competition from private lenders due to the recent strength of the agricultural sector, where private lenders have certain competitive advantages, such as brand awareness as well as rate flexibility; and
  - The downturn in the Alberta economy has impacted some clients' potential for repayment and has resulted in a decrease in loan approvals.
- As part of the Auditor General of Alberta's October 2016 recommendations regarding AFSC's Systems to Manage the Lending Program, AFSC is currently undergoing a lending mandate review to ensure that the lending programs are focused and provide the most value for its stakeholders.

***Key Strategy 4.2*** *– Develop and implement new and enhanced agriculture production insurance products that meet industry needs and encourage an innovative and diversified agri-food sector.*

AFSC provides individualized crop-specific insurance products to producers to offset the risks of agriculture production. Coverage is based on a producer's yield and market price, while premiums are based on the type of crop, the risk area and the coverage level selected by a producer. In the absence of effective private sector tools or methods, AFSC provides competitive risk management solutions that help producers operate successful farm businesses when natural and market events occur that are beyond agribusiness managers' control.

AFSC, in consultation with producer groups, developed and implemented several enhancements to insurance products for the 2016 crop year in an effort to better meet the risks producers are faced with and to make insurance products more relevant:

- **Malt barley insurance** – This adds coverage for growers with malt contracts. Malt barley has a higher market price than barley and producers are charged a higher premium to reflect the difference. This product is the first in Canada to tackle specific insurance coverage for a malting end use.

- **Organic insurance** – Organic producers will now have access to insurance that reflects the risk and prices of organic production.
- **Yellow dry beans** – This variety will now have a distinct insurance category. Prior to this, yellow dry beans were insured under a black/other dry bean category.
- Other enhancements have been made to field pea insurance coverage (due to the advent of edible pea production), bee overwintering insurance (which is now based on individual coverage rather than area based), and a winterkill insurance product to protect against alfalfa losses attributable to winterkill.

AFSC has plans to undertake further product enhancements for the 2017 growing season. Work is underway to:

- expand the insurable area for soft white winter wheat;
- amend insurable values for the Corn Heat Unit insurance product so the insurable values are no longer "fixed" and respond to yield and price changes;
- separately insure green and red lentils, rather than insuring them as one crop;
- increase indemnities for seed cleaning based on market rates; and
- add swath grazing into the wildlife damage compensation program.

### *Risk management*

*YEAR ENDING AT DECEMBER 31*

| Performance Measure 4.b | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Target 2016 |
|---|---|---|---|---|---|---|
| Percentage of eligible seeded acres for major crop categories insured under Production Insurance: | | | | | | |
| Annual crops | 75% | 77% | 76% | 77% | 77% | 78% |
| Perennial crops | 28% | 26% | 25% | 25% | 29% | 26% |

***Source:*** *Statistics Canada and Agriculture Financial Services Corporation.*

- This measure tracks success in providing customized insurance products to producers to offset the risks of agriculture production, based on type of crop, risk area, and coverage level selected (individual producer risk preference). Production Insurance (AgriInsurance) mitigates the effects of unstable production for Alberta producers by providing protection against losses caused by designated natural peril on annual and perennial crops. By having a strong selection of choices, backed by sound financial management practices, Alberta producers are better protected against the risks and are better positioned for future success and sustainability.
- The uptake of perennial crops insured under Protection Insurance was 29 per cent in 2016, which is up four per cent over the 2015 result and exceeds the stated target of 26 per cent. The uptake of perennial crop insurance has been more variable over the past few years, most likely related to good growing conditions and a reduced loss experience. The acres of perennials covered under Perennial Insurance are influenced by soil moisture going into spring and forage feed supply. Poor moisture conditions are in most cases followed by an increase in coverage level as some producers anticipate the continuation of poor growing conditions. Furthermore, AFSC staff have been engaging with the sector to raise awareness of the product, which may have had an impact in uptake as well. In total, 7.8 million acres and $147 million of risk is insured on perennial crops, up from 6.7 million and $129 million respectively.
- As there were no significant variances from targeted results or the previous year's results for the annual crops insured, additional results analysis is not provided.

***Key Strategy 4.3*** – *Implement farm safety education and training projects to assist farmers and ranchers in obtaining individual farm safety certification.*

Agriculture and Forestry continues to lead farm safety extension services, training and awareness for Alberta farms and ranches. For many years, the ministry has focused on developing lifelong learning resources, tools and programs to influence safe farming practices with Alberta farm owners, workers and their families.

By providing staff with training in specific areas, the ministry is increasing its knowledge capacity and, in turn, creating effective educational materials and resources to help Alberta farmers identify and control hazards related to farm and ranch work. The ministry also partners with community groups, individuals and Alberta Labour to increase farm safety knowledge and encourage adoption of safety practices that align with basic occupational health and safety standards on farms and ranches across the province.

Through collaboration and programing, Agriculture and Forestry had many significant achievements throughout 2016-17. The ministry made presentations and delivered seminars on farm safety to almost 1,400 Albertans. Agriculture and Forestry also assisted over 100 Alberta communities to deliver successful farm safety events for farm families and youth with expert guidance, demonstrations and interactive displays and materials. Working with community groups and agricultural societies significantly extended the reach of farm safety programming.

In 2016, the ministry earmarked approximately $2.87 million in farm safety programming over several years to delivery partners to help industry respond to legislative changes and to enhance the culture of safety on Alberta farms. For example, Agriculture and Forestry partners with Ag for Life and Safe Communities to organize and deliver Young Farm Worker Safety Training in rural communities. In fall 2016, an additional $37,500 was also provided to the Canadian Agriculture Safety Association for a mobile grain safety training unit as per their application to the AF Agricultural Initiatives Program.

A key challenge for the ministry is the reluctance of some farmers and ranchers to engage in farm safety programming until the specific code and regulations related to new farm safety legislation have been established. Agriculture and Forestry remains committed to addressing stakeholder concerns and to working with all groups to enhance farm safety across Alberta.

***Key Strategy 4.4*** – *Enhance local food production and market channels through knowledge transfer, tools and resources to meet consumer demand for locally grown food.*

Agriculture and Forestry has many initiatives to enhance local food production and market channels. The ministry focuses on building knowledge and the critical skills for local producers and processors, including increasing their knowledge of:

- market channels (farmers markets, on-farm retail, u-pick, etc.);
- finance and investment;
- productivity improvement; and
- food safety.

These skills are important in supporting a strong, local food system, which contributes to vibrant communities, creates jobs and boosts local economies. It also ensures Albertans have access to fresh, nutritious and safe food.

The ministry also provides information and coaching to:

- help processors determine targets for new agricultural products and services;
- determine product placement, packaging, and consumer awareness and market plans to help new products stay in the market beyond a year; and
- prepare for the challenges inherent in entering new markets, including risk awareness and enhancing its credibility with buyers.

In 2016-17, Agriculture and Forestry received 459 client inquiries, a 20 per cent increase from the previous year. This may be partly due to the current economic climate as individuals examined new business opportunities. The ministry assisted clients with introducing 59 new value-added products to the local markets. Another achievement this past year was the Farmers' Market application, which had over 16,000 downloads since launching in April 2016 and provides market information to local food consumers at their fingertips.

One significant challenge is the lack of food processing facilities in Alberta that can accommodate gluten-free, peanut-free and vegan production. This gap means Alberta production companies are limited in their growth while U.S. competition fills the void. The ministry's commitment to expand capacity in the Food Processing Development Centre and the Agrivalue Processing Business Incubator will go a long way in assisting producers to meet consumer demand for locally grown food.



***Key Strategy 4.5*** – *Implement an enhanced FireSmart program through wildfire prevention, mitigation, preparedness planning, education, outreach and municipal engagement.*

With the emerging challenges facing wildfire management, including extreme weather conditions and longer fire seasons, the ministry has developed wildfire prevention strategies that are responsive to these challenges.

There is increased emphasis on a long-term vision for FireSmart within the province that includes community responsibility, multi-agency collaboration and an outcome-based approach to implementing FireSmart projects. Support for research programs aimed at improving wildfire mitigation practices and efficiencies is also increasing. In 2016-17, approximately $6.2 million was spent for fuel management and FireSmart initiatives that respond to the Flat Top Complex recommendations. A portion of these funds, approximately $2.2 million of federal money, came from the shared agreement between Indigenous and Northern Affairs Canada and the ministry.

More information on FireSmart and other wildfire management initiatives can be found under Key Strategy 2.1.

***Key Strategy 4.6*** – *Provide training and tools to improve governance effectiveness of agriculturally-focused organizations.*

Agriculture and Forestry provides training and tools to improve governance effectiveness of agriculturally-focused organizations. This includes improving communication and transparency in rural organizations and implementing strategic plans.

An ongoing issue has been the increased public scrutiny on the quality of these organizations' work, which prompted the ministry to engage the associations on improving their operations, governance and communication with boards and chairs to ensure high-quality outcomes.

In 2016-17, the ministry supported 3,400 agricultural-related community activities, with 16 per cent focusing on leadership development. Agriculture and Forestry also increased the uptake of bylaw programs by agricultural societies by 15 per cent from the previous year and nearly 70 per cent over the past three years. These programs include workshops, seminars and one-on-one sessions that help enhance an agricultural society's bylaws to enable it to be effective and efficient in meeting its objectives.

# Performance Measure Methodology

## *Performance Measures 1.a and 1.b*

1.a Alberta's agri-food exports by market ($ million) (United States or U.S.; China; India; European Union member countries; Japan, Mexico; and Rest of the World)

1.b Alberta's agri-food exports by sector ($ million) (Primary commodities; and Processed/ manufactured products)

- The results for these measures are derived from the monetary value of Alberta's agri-food products leaving the province through customs for a foreign destination market.
- Measure 1.a reports the total value of Alberta's agri-food exports categorized by country or region of destination, where the country of destination is the last known destination of the agri-food products at the time of export.
- Measure 1.b reports the total value of Alberta's agri-food exports categorized into primary commodities and processed or manufactured products.
- Agri-food exports refers to domestic exports, which exclude re-exports and include primary commodities and processed or manufactured products. Primary commodities refer to all crops grown and livestock raised in Alberta that have not been materially transformed. Processed or manufactured products refer to processed crops and livestock products under broad groupings of food, beverages, animal feed, and inedible crude animal and plant products.
- The ministry purchases export statistics related to agri-food from the International Trade Division of Statistics Canada. This data set provides a detailed breakdown of agri-food exports originating from Alberta and valued at "Free on Board" port of exit from Canada. Canadian international export statistics are developed from administrative files of Canada Border Services Agency and U.S. Border Protection. Information on Alberta's agri-food exports is compiled by the Statistics and Data Development Section of Agriculture and Forestry.
- Statistics developed from administrative records of Customs may understate or incorrectly portray the destination of exports or the province of origin. Inaccuracies of exports data often result from the attribution of exports on a province of lading basis rather than by province of origin. Export statistics are subject to revisions, with revisions being conducted by Statistics Canada on a monthly basis. In this report, revisions are made only in the case when the difference in annual value of exports is greater than five per cent.
- The European Union member countries include: Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Republic of Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; and United Kingdom. The "Rest of the World" represents all countries, excluding the U.S., China, India, Japan, Mexico and the European Union member countries.

Performance Measure Methodology

## *Performance Measure 1.c*

Number of value-added agriculture products developed and successfully introduced to market with assistance from Agriculture and Forestry.

- The result for this measure is the total number of written confirmations provided by industry clients for products that were developed with assistance from the ministry and successfully introduced to market.
- At year-end, each industry client is asked to provide a written confirmation (or declaration) to verify all new value-added products that were developed with assistance from the ministry and successfully introduced to market. Each industry client self-declares the following information: name of processing company, name of product(s), date the product entered the marketplace, signature of an authorized representative of the processing company, and ministry project lead. This information is aggregated and reported under this measure.
- Value-added products include value-added food, beverage, and bio-industrial products and new crop varieties. Introduced to market refers to a product that has obtained a listing at retail or food service, domestically or internationally, as well as products that have been sold as ingredients for further manufacturing. Ministry staff assist industry clients in one or more of the following areas: product formulation, shelf-life, packaging, sensory evaluation, marketing and commercialization.
- The number of new products confirmed by industry clients are aggregated and reported for this measure. The data is collated from program areas within the ministry that are engaged in product development and commercialization.

## *Performance Measure 1.d*

Research and development investment by collaborators leveraged through ministry resources ($ million).

- The result for this measure is the sum of expended dollars from outside sources leveraged through ministry investment in research and development in five priority areas: value-added processing; livestock development; crop diversification; food safety; and environmental stewardship. The outside sources or collaborators include: industry organizations; private companies; universities; government departments; and agencies.
- Research and development is creative work undertaken on a systematic basis in order to increase the stock of scientific and technical knowledge and to use this knowledge in new applications. The central characteristic of research and development is an appreciable element of novelty and it involves scientific investigations resulting in new knowledge, products or processes.
- A standardized questionnaire, with detailed instruction guide, is used to collect information from ministry program areas that are involved in research and development activities. The questionnaire collects information on a branch's fiscal year research and development projects, expenditures, and corresponding levels expended amounts received from outside sources. An expended amount is an aggregate amount of revenue that has been used to offset part or all of project expenses.
- Data on in-kind contributions from collaborators are not included in the calculation of this measure. As a result, the performance result likely understates the true amount of leveraged resources invested by collaborators. Measures of in-kind contributions are less reliable, as they are based on estimates that can be subjective in nature.

## *Performance Measure 2.a*

Percentage of wildfires contained before 10 a.m. the day following assessment.

- The number of wildfires contained by 10 a.m. the day following assessment is expressed as a percentage of all wildfires that occur during the fire season (April 1 to October 31).
- Wildfires in the province are thoroughly tracked for detection, assessment, control and containment logging time, and resources used. The results of the performance measure indicate how quickly the ministry controls wildfires. Early detection, assessment and containment minimizes fire loss and reduces suppression costs.
- Targets reflect the average of actual results from the five preceding years. For example, the 2016 target is based on the average of the actual results from calendar years 2011 to 2015, inclusive both years.
- Future targets are not listed in the business plan because the most recent result (2015) for the five-year average calculation was not available when the business plan was prepared. In lieu of actual targets, the target setting procedure is disclosed in the ministry business plan.

## *Performance Measure 2.b*

Percentage of active provincial licensed abattoirs that meet provincial food safety slaughter requirements.

- The result for this measure is derived by dividing the number of active Alberta-licensed abattoir facilities that are compliant with the Meat Inspection Regulation at each and every scheduled inspection by a base value of total number of active Alberta-licensed abattoir facilities.
- All Alberta-licensed abattoir facilities (poultry, red meat abattoirs) receive animal slaughter inspections as part of facility and operating standards under the slaughter inspection program. Each active Alberta-licensed abattoir facility receives inspections at all scheduled slaughter days over the course of the year.
- The animal slaughter requirements target food safety risk factors associated with: adequate hand washing; demonstration of knowledge; personnel hygiene practices; protection from contamination; slaughter equipment; cool time and temperature; and sanitation practices. The animal slaughter inspections are used to determine if an abattoir facility has met provincial animal slaughter requirements for the reporting calendar year.
- This measure only reports compliance to inspections related to animal slaughter requirements under the Meat Inspection Regulation. Each active Alberta-licensed abattoir facility receives a compliance designation for each food safety risk factor: Compliant, Requires Improvement, or Non-Compliant. Requires Improvement indicates low food-safety risk. Non-Compliant indicates that slaughter practices and/or operating procedures (such as repetitive occurrences of low-risk food-safety incidences) create a high food-safety risk or a poor food-safety culture. A corrective action request is issued for all non-compliant ratings; abattoirs are expected to address areas of non-compliance within the time-frame established by a ministry animal slaughter inspector.
- An active abattoir facility that receives either Compliant or Requires Improvement for all components of all slaughter inspections is deemed compliant for the inspection period. An active facility that complies with the Meat Inspection Regulation at all slaughter inspections is deemed to have met

provincial food safety slaughter requirements for the entire reporting calendar year.

- An active abattoir facility that receives one or more corrective action requests for any slaughter day inspection is deemed not to have met the Meat Inspection Regulation for the entire reporting calendar year. Active facilities that comply with the Meat Inspection Regulation for some (but not all) slaughter day inspections are not counted as having met provincial food safety animal slaughter requirements. As a result, the performance result likely understates the level of compliance among active Alberta-licensed abattoir facilities.
- Data for this measure is collated from the ministry's Meat Inspection Program.



### *Performance Measure 3.a*

Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey).

- The result for this measure is derived from 40 environmentally sustainable agriculture (ESA) practices that could be used to address soil conservation, water management, wildlife habitat conservation, energy management, climate change adaptation, agricultural waste management, and grazing and manure management.
- An eligible ESA practice (or group) for the base calculation is based on farm type, farm site characteristics, and operation practices. The percentage of eligible environmentally sustainable agricultural practices adopted by each respondent is multiplied by a weighting factor to generate a weighted adoption score for each respondent. The result of this measure is the average weighted adoption score of all respondents expressed as a percentage.
- The target population for Agriculture and Forestry's Environmentally Sustainable Agriculture Tracking Survey is based on a list of commercial farmers in Alberta maintained by Ipsos Reid Corporation. The random and representative sample size was 500, providing a margin of error in provincial results of ± 4.4 per cent at a 95 per cent confidence level. The response rate was 14.2 per cent.
- Data limitations include: producers that are not included in Ipsos Reid Corporation's database (the source of the survey list); non-contactable subscribers (due to privacy legislation compliance); unreachable samples (due to wrong telephone numbers, answering machine, busy, no answer, etc.) and non-response; and disqualification due to failure to answer a required screening question.

## *Performance Measure 3.b*

Sustainable timber harvest (million cubic metres) by:

a. Annual allowable cut (million cubic metres)

b. Harvest (million cubic metres)

- Results reflect Alberta's ability to manage forests on Crown land in a sustainable manner. Annual Allowable Cut (AAC) is the amount of timber that can be harvested on a sustainable basis (in accordance with the policy of sustained yield) within a defined planning area. Recreation areas, wildlife reserves and stream buffers are excluded from the AAC calculation.
- The AAC is determined on either an individual forest management unit basis or a specific forest management agreement area basis. Each forest management unit (or area) with an AAC has up to three coniferous AACs and two deciduous AACs. These are rolled up into a provincial coniferous AAC and a provincial deciduous AAC. Finally, the coniferous and deciduous AACs are summed to determine the total provincial AAC. Information is stored in a database and summed to determine the total provincial AAC for the province.
- AACs are developed by forest management agreement (FMA) holders as part of their detailed forest management plans. An FMA is an area-based tenure agreement between a forest company and the Government of Alberta that gives a forestry company the right to establish, grow, and harvest timber. The ministry approves the company-recommended AAC following a technical review; ministry staff develop AACs for other forest management units.
- Data from the Timber Production and Revenue System is used to determine the provincial harvest level (actual timber harvest). Certain volumes are not included in the harvest level for the purpose of comparability to the AAC. For example, fire salvage is not included in harvest levels if it does not contribute to the AAC.
- A five-year rolling average is used to report provincial AAC and actual timber harvest levels. Results lag by one year.

## *Performance Measure 3.c*

Percentage of forest regrowth as a result of reforestation.

- The rate of forest regrowth is the percentage of targeted regrowth achieved on harvested areas at the time of last mandated assessment. This measure ensures that reforestation continues to sustain Alberta's public forests and forest lands following industrial harvesting. Monitoring reforestation in relation to regeneration standards is an essential part of continued forest sustainability and demonstrates efforts that Agriculture and Forestry staff perform to sustain Alberta's forest resources.
- The current forest regeneration assessment system utilizes detailed data and assesses sufficiency of the harvested areas' reforestation status. Two approaches are generally used to track forest growth rates following industrial harvesting:
  - current forest growth status relative to a fixed point-in-time standard; or
  - forecasting the growth rate of the reforested trees relative to the growth rate assumed for that forest type in the Forest Management Plan for the area.
- The regrowth rate measure reports a single metric combining both systems of assessing regeneration performance.

### *Performance Measure 4.a*

Total investment leveraged in rural businesses facilitated through Agriculture Financial Services Corporation lending services ($ million).

- Farms and commercial business investments in rural areas are added together and reported as total dollar investment (all sources are included whether it is direct from AFSC, other sources of debt, business owner's equity or investment by a third party). This amount excludes all loans that were approved in the 2016-17 fiscal year and subsequently cancelled or withdrawn on or before March 31, 2017.
- Dollar investment is any fund (i.e. debt, equity, investment) that would be used to support the growth of farming and commercial activities. Total leveraged investment is a proxy for the total dollar investment as a result of AFSC's involvement with the facilitation of capital investment in agribusiness and farm loans for farming and/or commercial activities outside Calgary and Edmonton.
- Total dollar investment in rural businesses is a proxy value for investment based on loans approved. Values reported are affected by timing differences between approval and disbursement of loans approved. As well, not all approved loans are disbursed. The data is collated from AFSC's lending activities.

### *Performance Measure 4.b*

Percentage of eligible seeded acres for major crop categories insured under Production Insurance:

a. Annual Crops

b. Perennial Crops

- Annual crops are seeded every year. The annual crops included in this measure are: wheat (winter wheat, spring wheat, and durum wheat); oats; barley; fall rye; mixed grain; flaxseed; canola; corn for grain; dry peas; triticale; dry coloured beans; lentils; mustard seed; chick peas; sugar beets; and fodder corn.
- Perennial crops refer to crops that do not need to be seeded every year and last for several years. Perennial crops are made up of seeded pasture, native/natural pasture, and tame hay.
- The total eligible seeded acres for the annual crops insured under the crop insurance program is divided by the corresponding total seeded acres for annual crops, as reported in Statistics Canada's November 2016 Field Crop Reporting Series (released on December 6, 2016). The result is then expressed as a percentage. The corresponding eligible seeded acres of annual crops insured under the Crop Insurance program is supplied by Agriculture Financial Services Corporation (AFSC).
- The total eligible seeded acres for the perennial crops insured under the Crop Insurance program is divided by the corresponding total for seeded and native pastures (Census of Agriculture 2016 (released on May 10, 2017), Statistics Canada) and tame hay pasture (November 2016 Field Crop Reporting Series, Statistics Canada (released on December 6, 2016)). The result is then expressed as a percentage. The corresponding eligible acres of perennial crops insured under the Crop Insurance program is obtained from AFSC.
- The estimate for land (in acres) seeded to annual crops in Alberta is taken from Statistics Canada's November 2016 Field Crop Reporting Series. This Statistics Canada publication also provides a detailed methodology to the field crop data. The November estimate provides the most recent information available on seeded acreage in Alberta.
- The Census of Agriculture is collected every five years, so acres may change during that time.

# APPENDIX A: AGRICULTURE AND FORESTRY STATISTICS



## Alberta Agriculture and Agri-Food Industry

| Household Food Expenditure | | 2014 (r) | 2015 (p) | % Change |
|---|---|---|---|---|
| **Annual Average Household Food Expenditure** | Average Household Expenditure on Food | $8,740 | $10,171 | 16.4% |
| | *% of Total Average Household Expenditure* | *9.2%* | *8.7%* | |

***Note:*** *Expenditure data for 2016 are not yet available.*

| Agri-Food Industry | | 2015 (r) | 2016 (p) | % Change |
|---|---|---|---|---|
| **Real Gross Domestic Product (GDP) in 2007 Dollars** | **Agri-Food Industries ($ Billions)** | $6.10 | $6.57 | 7.8% |
| | - Agriculture Industries | $3.24 | $3.69 | 13.6% |
| | - Food and Beverage Manufacturing Industries | $2.86 | $2.89 | 1.1% |
| | - Food Manufacturing | $2.40 | $2.44 | 1.7% |
| | - Beverage Manufacturing | $0.46 | $0.45 | -2.1% |
| **Employed Labour Force** | **Agri-Food Industries (Number of Persons)** | **89,200** | **73,200** | **-17.9%** |
| | % of Total Alberta Employment | *3.9%* | *3.2%* | |
| | - Agriculture Industries | 62,800 | 50,800 | -19.1% |
| | - Food and Beverage Manufacturing Industries | 26,400 | 22,400 | -15.2% |
| | *% of Total Manufacturing Industries* | *18.9%* | *19.4%* | |
| **Farm Income** | **Total Farm Cash Receipts ($ Billions)** | **$13.59** | **$13.49** | **-0.8%** |
| | - Crops | $6.16 | $6.67 | 8.2% |
| | *% of Total Cash Receipts* | *45.4%* | *49.5%* | |
| | - Livestock and Livestock Products | $6.78 | $6.12 | -9.6% |
| | *% of Total Cash Receipts* | *49.8%* | *45.4%* | |
| | - Supply Management (Dairy, Poultry and Eggs) | $0.89 | $0.93 | 4.2% |
| | *% of Livestock and Livestock Products* | *13.1%* | *15.2%* | |
| | - Direct Program Payments | $0.65 | $0.70 | 6.7% |
| | *% of Total Cash Receipts* | *4.8%* | *5.2%* | |
| | **Farm Operating Expenses (After Rebates) ($ Billions)** | **$10.34** | **$9.98** | **-3.5%** |
| | **Net Cash Farm Income ($ Billions)** | **$3.25** | **$3.51** | **8.0%** |
| | **Realized Net Income ($ Billions)** | **$1.54** | **$1.77** | **15.0%** |
| | **Total Net Income ($ Billions)** [1] | **$1.30** | **$2.08** | **60.0%** |
| **Food and Beverage Manufacturing Industries Value of Sales** | **Food and Beverage Industries ($ Billions)** | **$13.33** | **$14.56** | **9.2%** |
| | *% of Total Alberta Manufacturing Sales* | *19.1%* | *23.3%* | |
| | **Top Three Largest Food Manufacturing Sales Groups in 2016:** | | | |
| | 1. Meat Products (Includes Poultry) | $6.78 | $7.31 | 7.9% |
| | 2. Grain and Oilseed Milling | $1.63 | $1.75 | 7.6% |
| | 3. Dairy Products Manufacturing | $0.73 | $1.56 | 112.3% |
| **Agri-Food Exports to All Countries** | **Total Agri-Food Exports ($ Billions)** | $10.18 | $9.99 | -1.9% |
| | - Primary Commodities (Animals and Crops) | $5.38 | $4.96 | -7.9% |
| | - Value-added Products | $4.80 | $5.04 | 4.9% |
| | **Top Three Markets in 2016 (% Share of Total)** | | | |
| | 1. United States (40.5%) | $4.00 | $4.05 | 1.2% |
| | 2. China (13.8%) | $1.59 | $1.38 | -13.4% |
| | 3. Japan (12.3%) | $1.10 | $1.23 | 11.3% |

## Appendix A: Agriculture and Forestry Statistics

| Agri-Food Industry | | 2015 (r) | 2016 (p) | % Change |
|---|---|---|---|---|
| **Value of Farm Capital** | **Total Value of Farm Capital at July 1 ($ Billions)** | **$140.64** | **$149.11** | **6.0%** |
| | - Livestock and Poultry | $10.82 | $7.99 | -26.2% |
| | - Land and Buildings | $116.33 | $127.02 | 9.2% |
| | - Machinery and Equipment | $13.49 | $14.10 | 4.5% |
| **Production of Top Three Major Field Crops** | **1. All Wheat (tonnes)** | **8,290,000** | **9,898,200** | **19.4%** |
| | *% of Canada* | *30.0%* | *31.2%* | |
| | **2. Canola (tonnes)** | **5,851,300** | **5,783,300** | **-1.2%** |
| | *% of Canada* | *31.8%* | *31.4%* | |
| | **3. Barley (tonnes)** | **4,289,200** | **4,398,000** | **2.5%** |
| | *% of Canada* | *52.1%* | *50.1%* | |
| **Meat Production Quantity** | Beef – Western Canada [2] (tonnes) | 758,630 | 814,460 | 7.4% |
| | Pork – Alberta (tonnes) | 242,189 | 242,299 | 0.0% |
| **Number of Livestock Slaughtered [3]** | Cattle and Calves – Western Canada [2] (Head) | 2,013,571 | 2,111,909 | 4.9% |
| | Hogs – Alberta (Head) | 2,673,257 | 2,619,485 | -2.0% |
| | | **01/01/2016** | **01/01/2017** | |
| **Livestock Inventory on Farms on January 1st** | **Cattle and Calves (Head)** | **4,920,000** | **4,850,000** | **-1.4%** |
| | *% of Canada* | *41.2%* | *40.2%* | |
| | **Hogs (Head)** | **1,480,000** | **1,515,000** | **2.4%** |
| | *% of Canada* | *11.0%* | *11.0%* | |
| | **Sheep and Lambs (Head)** | **136,000** | **128,000** | **-5.9%** |
| | *% of Canada* | *16.5%* | *15.7%* | |

| Census of Agriculture – Alberta | | 2011 | 2016 | % Change |
|---|---|---|---|---|
| **Rural Population** | **Total Population of Alberta** | **3,645,257** | **4,067,175** | **11.6%** |
| | - Rural Population | 614,855 | 667,803 | 8.6% |
| | *% of Total Population* | *16.9%* | *16.4%* | |
| | - Population Centres (Urban) Population | 3,030,402 | 3,399,372 | 12.2% |
| **Number of Farms** | Number of Farms | 43,234 | 40,638 | -6.0% |
| | *% of Canada* | *21.0%* | *21.0%* | |
| **Farmland Area** | Total Farmland Area (Acres) | 50,498,834 | 50,250,183 | -0.5% |
| | *% of Canada* | *31.5%* | *31.7%* | |
| **Land Area in Crops** | Land Area in Crops (Acres) | 24,102,289 | 25,261,781 | 4.8% |
| | *% of Canada* | *27.6%* | *27.1%* | |
| **Average Farm Size** | Average Farm Size (Acres) | 1,168 | 1,237 | 5.9% |
| **Farm Operators** | **Number of Farm Operators** | **62,050** | **57,605** | **-7.2%** |
| | Average Age of Farm Operators | 54.5 years | 55.7 years | |
| | *% Distribution By Age Group:* | | | |
| | *- Under 35 years* | *7.3%* | *8.5%* | |
| | *- 35 to 54 years* | *43.1%* | *35.0%* | |
| | *- 55 years and over* | *49.6%* | *56.5%* | |

| Census of Agriculture – Alberta | | 2011 | 2016 | % Change |
|---|---|---|---|---|
| **Farms by Type** [4] | **Top Five Farm Types (Number of Farms):** | | | |
| | 1. Grain and Oilseed | 12,692 | 13,451 | 6.0% |
| | 2. Beef Cattle (Including Feedlots) | 12,022 | 12,282 | 2.2% |
| | 3. Other Crops (Excluding Grain and Oilseed) | 9,385 | 7,414 | -21.0% |
| | 4. Other Animals (Excluding Beef Cattle) | 6,374 | 5,101 | -20.0% |
| | 5. Greenhouse, Nursery, Floriculture and Mushroom | 826 | 605 | -26.8% |
| **Farms by Sales Class** [5] | ***% of Total Number of Farms:*** | | | |
| | *- Under $10,000* | *17.8%* | *14.2%* | |
| | *- $10,000 to $24,999* | *18.2%* | *14.8%* | |
| | *- $25,000 to $99,999* | *27.7%* | *26.3%* | |
| | *- $100,000 to $499,999* | *26.0%* | *28.5%* | |
| | *- $500,000 and Over* | *10.3%* | *16.2%* | |
| **Land Area Seeded Using No-Till Practices** | **Total Land Area Prepared for Seeding (Acres)** | **19,945,813** | **21,909,580** | **9.8%** |
| | No-Till or Zero-Till Seeding Area | 12,924,625 | 15,176,949 | 17.4% |
| | *% of Total Land Area Prepared for Seeding* | *64.8%* | *69.3%* | |
| **Irrigation Area** | Irrigated Farmland (Acres) | 1,241,411 | 1,517,089 | 22.2% |
| | *% of Canadian Irrigated Area* | *65.2%* | *67.9%* | |

**r – revised p – preliminary, subject to revision.**

***Note:*** *per cent changes shown are based on unrounded data. Data shown in this table are current as May 24, 2017.*

*[1] Realized net income adjusted for inventory change.*

*[2] Western Canada data only; breakdown for Alberta are unavailable.*

*[3] Federally and provincially inspected slaughter, irrespective of origin.*

*[4] Farms are classified by the commodity or groups of commodities that make up the majority of total farm cash receipts; based on the North American Industry Classification System (NAICS).*

*[5] Farms are classified by the gross farm cash receipts of the operation in the previous calendar year, or for the complete accounting (fiscal) year (2010 and 2015).*

***Sources:*** *Statistics Canada; Alberta Agriculture and Forestry; Agriculture and Agri-Food Canada; and Census data for 2011 and 2016 are from the Census of Population and Census of Agriculture.*

More detailed statistical information can be found on the Statistics page on the ministry website **www.agric.gov.ab.ca**

# Alberta Forest Industry

| Industry Statistics | | 2015 | 2016 | % Change |
|---|---|---|---|---|
| **Real Gross Domestic Product (GDP) in 2007 Dollars ($ millions) [A]** | Forestry & logging industries | 583.8 | 583.5 | -0.1% |
| | Wood products manufacturing | 1,435.8 | 1,418.6 | -1.2% |
| | Pulp & paper manufacturing | 569.2 | 570.5 | 0.2% |
| **Employment (Number of Persons) [B]** | Forestry & logging industries | 4,861.0 | 4,262.0 | -12.3% |
| | Wood products manufacturing | 10,393.0 | 9,768.0 | -6.0% |
| | Pulp and Paper manufacturing | 3,393.0 | 2,563.0 | -24.5% |
| **Capital Expenditures ($ millions) [C]** | Forestry & logging industries | 57.3 | x | — |
| | Wood products manufacturing | 124.3 | 113.2 | -8.9% |
| | Pulp & paper manufacturing | 94.3 | 75.3 | -20.1% |
| **Industry Revenues ($ millions) [D]** | Forestry & logging industries | 937.0 | x | — |
| | Wood products manufacturing | 3,471.7 | 3,761.5 | 8.3% |
| | Pulp & paper manufacturing | 1,933.9 | 1,890.4 | -2.2% |
| **Top Three Export Markets for Wood Products ($ millions) [E]** | United States | 1,033.6 | 1,020.2 | -1.3% |
| | Japan | 33.8 | 46.4 | 37.1% |
| | China | 1.1 | 6.5 | 507.9% |
| **Top Three Export Markets for Pulp & Paper Products ($ millions) [E]** | United States | 1,006.7 | 920.4 | -8.6% |
| | China | 512.7 | 510.5 | -0.4% |
| | Japan | 168.8 | 137.2 | -18.7% |

*Results current as at May 8, 2017.*

***Notes:***

1. *All values expressed in Canadian Dollars (SCAN).*
2. *GDP values expressed in chained (2007) dollars at basic prices.*
3. *Capital expenditures expressed in (2007) dollars.*
4. *Capital expenditures and domestic revenues for forestry & logging industries do not include support activities for forestry, as the data is not reported at that level.*
5. *Forestry & logging industries refers to harvesting, silviculture, reforestation, pest control and other related activities.*
6. *Wood products manufacturing refers to solid wood products, such as lumber, panels (OSB, plywood), engineered and other wood products.*
7. *Pulp and paper manufacturing refers to pulp wood products such as chemical and mechanical pulp, newsprint and other paper products.*
8. *Industry revenues include all (seasonally adjusted) sales from logging & manufacturing activities, both domestically and internationally. Other revenues not included.*

x. *Figures have been suppressed to meet the confidentiality requirements of the Statistics Act.*

***Sources:***

*A. Statistics Canada: System of National Accounts (SNA)*

*B. Statistics Canada: Survey of Employment, Payroll, & Hours (SEPH)*

*C. Statistics Canada: Annual Capital and Repair Expenditures Survey (CAPEX)*

*D. Statistics Canada: Annual Survey of Manufacturing & Logging*

*E. Statistics Canada: Canadian International Merchandise Trade Database*

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# Ministry of Agriculture and Forestry

Consolidated Financial Statements

Year Ended March 31, 2017


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AUDITOR GENERAL *Alberta*

## Independent Auditor's Report

To the Members of the Legislative Assembly

**Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the Ministry of Agriculture and Forestry, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture and Forestry as at March 31, 2017, and the results of its operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 2, 2017

Edmonton, Alberta

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual (Restated - Note 3) |
|---|---|---|---|
| | | (in thousands) | |
| **Revenues (Schedule 1)** | | | |
| Government Transfers | | | |
| Government of Alberta Grants | - | 789 | 677 |
| Federal Government Grants | 304,215 | 394,552 | 308,364 |
| Investment Income | 138,053 | 129,924 | 133,313 |
| Premiums, Fees and Licenses | 411,507 | 460,660 | 367,865 |
| Other Revenue | 12,791 | 17,725 | 12,781 |
| Ministry Revenue | **866,566** | **1,003,650** | **823,000** |
| **Expenses - Directly Incurred (Note 2(c), and Schedule 7 & 8)** | | | |
| **Program (Schedule 2)** | | | |
| Ministry Support Services | 21,346 | 23,564 | 21,247 |
| Agriculture Policy and Economics | 16,708 | 13,875 | 14,465 |
| Agriculture Environment and Water | 53,782 | 61,171 | 52,919 |
| Food Safety and Animal Health | 47,989 | 45,269 | 46,338 |
| Industry Development | 102,690 | 134,414 | 131,184 |
| Forests | 195,950 | 425,344 | 587,003 |
| Lending | 37,747 | 31,737 | 37,462 |
| Insurance | 471,864 | 683,273 | 606,115 |
| Agriculture Income Support | 128,618 | 187,835 | 86,669 |
| Livestock and Meat Strategy | 24,736 | - | - |
| Program Expense | **1,101,430** | **1,606,482** | **1,583,402** |
| Other | | | |
| Debt Servicing Costs | 71,829 | 68,590 | 70,131 |
| | 71,829 | 68,590 | 70,131 |
| Ministry Expense | **1,173,259** | **1,675,072** | **1,653,533** |
| **Annual Deficit** | **$ (306,693)** | **$ (671,422)** | **$ (830,533)** |

*The accompanying notes and schedules are part of these consolidated financial statements.*

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2017

| | 2017 | 2016 (Restated - Note 15) |
|---|---|---|
| | (in thousands) | |
| **Financial Assets** | | |
| Cash and Cash Equivalents (Note 4) | $ 482,445 | $ 344,388 |
| Accounts Receivable (Note 5) | 285,761 | 272,563 |
| Loans Receivable (Schedule 3) | 2,240,531 | 2,161,537 |
| Investments (Schedule 4) | 2,124,401 | 1,891,416 |
| | **5,133,138** | **4,669,904** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities (Note 6) | 126,872 | 262,069 |
| Indemnities Payable | 333,922 | 167,535 |
| Deferred Revenue (Note 8) | 12,039 | 16,960 |
| Liability for Contaminated Sites (Note 9) | 5,047 | 5,263 |
| Unspent Deferred Capital Contributions (Note 8) | 592 | 431 |
| Borrowing from Government of Alberta (Schedule 6) | 2,206,540 | 2,146,362 |
| | **2,685,012** | **2,598,620** |
| **Net Financial Assets** | **2,448,126** | **2,071,284** |
| **Non-Financial Assets** | | |
| Tangible Capital Assets (Schedule 5) | 242,844 | 240,367 |
| Inventories of Supplies | 5,267 | 3,782 |
| Prepaid Expenses | 4,278 | 3,981 |
| | **252,389** | **248,130** |
| **Net Assets Before Spent Deferred Capital Contributions** | **2,700,515** | **2,319,414** |
| Spent Deferred Capital Contributions (Note 8) | 13,508 | 13,602 |
| **Net Assets** | **$ 2,687,007** | **$ 2,305,812** |
| **Net Assets, Beginning of Year** | $ 2,305,812 | $ 2,443,395 |
| Adjustments to Net Assets (Note 15) | 1,126 | 304 |
| Annual Deficit | (671,422) | (830,533) |
| Net Financing Provided from General Revenues | 1,051,491 | 692,646 |
| **Net Assets, End of Year** | **$ 2,687,007** | **$ 2,305,812** |

Contingent Liabilities and Contractual Obligations (Notes 10 and 11)

*The accompanying notes and schedules are part of these consolidated financial statements.*

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual |
|---|---|---|---|
| | | (in thousands) | |
| **Annual Deficit** | $ (306,693) | $ (671,422) | $ (830,533) |
| Acquisition of Tangible Capital Assets | (27,807) | (22,284) | (27,030) |
| Amortization of Tangible Capital Assets (Schedule 5) | 29,245 | 24,965 | 24,911 |
| Donated Tangible Capital Assets | | (4,182) | - |
| Gain on Sale of Tangible Capital Assets | | (34) | (46) |
| Proceeds on Sale of Tangible Capital Assets | | 68 | 189 |
| Write-downs of Tangible Capital Assets | | 116 | 498 |
| Acquisition of Inventories of Supplies | (1,310) | (2,360) | (1,729) |
| Consumption of Inventories of Supplies | 1,310 | 875 | 2,327 |
| Change in Prepaid Expenses | | (297) | 165 |
| Change in Spent Deferred Capital Contribution (Note 8) | | (94) | 702 |
| Net Financing Provided from General Revenue | | 1,051,491 | 692,646 |
| **Increase/(Decrease) in Net Financial Assets** | | $ 376,842 | $ (137,900) |
| **Net Financial Assets, Beginning of Year** | | 2,071,284 | 2,209,184 |
| **Net Financial Assets, End of Year** | | $ 2,448,126 | $ 2,071,284 |

*The accompanying notes and schedules are part of these financial statements.*

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| **Operating Transactions** | | |
| Annual Deficit | $ (671,422) | $ (830,533) |
| Non-cash items included in Net Operating Results | | |
| Amortization of Tangible Capital Assets (Schedule 5) | 24,965 | 24,911 |
| Deferred Contributions recognized as Revenue (Note 8) | (3,601) | (4,664) |
| Amortization of premiums and discounts | 1,781 | (1,915) |
| Donated Tangible Capital Assets | (4,182) | - |
| Gain on Disposal of Tangible Capital Assets | (34) | (46) |
| Write-downs of Tangible Capital Assets | 116 | 498 |
| Gain on Sale of Investments | (7,340) | (8,356) |
| | **(659,717)** | **(820,105)** |
| Net Change in Operating Assets and Liabilities | 14,869 | 137,189 |
| Cash Applied to Operating Transactions | **(644,848)** | **(682,916)** |
| **Capital Transactions** | | |
| Acquisition of Tangible Capital Assets (Schedule 5) | (22,283) | (27,030) |
| Proceeds on Disposal of Tangible Capital Assets | 68 | 189 |
| Cash Applied to Capital Transactions | **(22,215)** | **(26,841)** |
| **Investing Transactions** | | |
| Proceeds from Repayments of Loans Receivable | 387,272 | 426,548 |
| Loan Disbursements | (470,480) | (528,026) |
| Purchase of Investments | (1,205,287) | (807,196) |
| Proceeds on Disposal of Investments | 978,962 | 759,321 |
| Cash Applied to Investing Transactions | **(309,533)** | **(149,353)** |
| **Financing Transactions** | | |
| Contributions Restricted for Capital (Note 8) | 3,668 | 4,690 |
| Borrowing from the Government of Alberta | 1,020,000 | 783,000 |
| Repayment of Borrowing from the Government of Alberta | (960,506) | (658,642) |
| Net Financing Provided from General Revenues | 1,051,491 | 692,646 |
| Cash Provided by Financing Transactions | **1,114,653** | **821,694** |
| **Increase (Decrease) in Cash and Cash Equivalents** | **138,057** | **(37,416)** |
| **Cash and Cash Equivalents at Beginning of Year** | **344,388** | **381,804** |
| **Cash and Cash Equivalents at End of Year** | **$ 482,445** | **$ 344,388** |

*The accompanying notes and schedules are part of these consolidated financial statements.*

**Notes to the Consolidated Financial Statements for the Year Ended March 31, 2017**

## Note 1 Authority and Purpose

The Ministry of Agriculture and Forestry operates under the authority of the *Government Organization Act* and its regulations and has been designated responsibilities for various Acts. The purpose of the Ministry is to enable the growth, prosperity and diversification of Alberta's agriculture, food and forest sectors; to inspire public confidence in wildfire and forest management and the quality and safety of food; to support environmentally sustainable resource management practices; and to lead collaboration that enables safe and resilient rural communities through policies, legislation, regulations and services.

## Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards.

### (a) Reporting Entity

The Minister of Agriculture and Forestry administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Agriculture and Forestry and constitute the reporting entity.

| Organization | Authority |
|---|---|
| Department of Agriculture and Forestry (the Department) | *Government Organization Act* |
| Agriculture Financial Services Corporation (the Corporation) | *Agriculture Financial Services Act* |
| Environmental Protection and Enhancement Fund (the Fund) | *Environmental Protection and Enhancement Act* |

The financial statements for the individual entities provide more detailed information about the operations of each entity.

### (b) Method of Consolidation

The accounts of the Department, regulated funds and provincial agencies are consolidated using the line-by-line method. Under this method, accounting policies of the consolidated entities are adjusted to conform to government accounting policies and the results of each line item in their financial statements (revenue, expense, assets, and liabilities) are included in government's results.

Revenue and expense, capital, investing and financing transactions and related asset and liability balances between entities within the ministry have been eliminated.

### (c) Basis of Financial Reporting

#### Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recognized as deferred revenue.

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income earned from restricted sources are deferred and recognized when the stipulations imposed have been met. Gains and losses on investments are not recognized in the Consolidated Statement of Operations until realized.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Government of Canada is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Government of Canada. Premiums received in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

*Government transfers* -Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recognized as deferred revenue (deferred capital contributions and deferred revenue) if the eligibility criteria of the transfer, or the stipulations together with the ministry's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the ministry complies with its communicated uses of these transfers.

All other government transfers, without stipulations for the use of the transfer, are recognized as revenue when the ministry is eligible to receive the funds.

*Deferred Revenue* - Cash received for which goods or services have not been provided by year end is recognized as deferred revenue.

**Expenses**

*Directly Incurred* - Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets;
- inventory consumed;
- pension costs which comprise the cost of employer contributions for current service of employees during the year; and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, loans, guarantees and indemnities.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

*Incurred by Others* - Services contributed by other entities in support of the ministry operations are not recognized and are disclosed and allocated to programs in Schedule 8.

**Valuation of Financial Assets and Liabilities**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Financial Assets**

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets are the ministry's cash, investments, and financial claims on external organizations and individuals at the year end.

*Cash and Cash Equivalents* - Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

Due to the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for allowance for doubtful accounts, if applicable. The resulting net book value is considered to be equivalent to fair value. This approach applies to cash; accounts receivable; due from Government of Canada; accounts payable and accrued liabilities; and indemnities payable. Fair values of loans receivable, investments, and borrowing from the Government of Alberta are disclosed in their respective schedules and notes.

*Investments* – Investments are carried at cost or amortized cost, unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

*Loans* - Loans are recognized at the lower of cost and net recoverable value. Amounts included in the cost of loans receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs. Valuation allowances are recognized to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured.

Loans made with significant concessionary terms are discounted. The amounts outstanding are discounted to their estimated present value. The amounts discounted are amortized to revenue over the term of the related concessionary loan.

**Liabilities**

Liabilities represent present obligations of the ministry to external organizations and individuals arising from transactions or events occurring before the year end. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:

- all financial claims payable by the ministry at the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

*Borrowing from Government of Alberta* - Borrowing from Government of Alberta is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

*Liability for Contaminated Sites* - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from operation(s) that is no longer in productive use and is recognized when all of the following criteria are met:

i. an environmental standard exists;
ii. contamination exceeds the environmental standard;
iii. the Ministry is directly responsible or accepts responsibility;
iv. it is expected that future economic benefits will be given up; and
v. a reasonable estimate of the amount can be made.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Non-Financial Assets**

Non-financial assets are limited to tangible capital assets, inventories of supplies and prepaid expenses.

*Tangible capital assets* - Tangible capital assets of the ministry are recognized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets. The threshold for capitalizing new systems development is $250,000-$500,000 and the threshold for major enhancements is $100,000. The threshold for computer software acquired from external sources is $5,000-$100,000. The threshold for all other tangible capital assets is $5,000. All land is capitalized.

Amortization is only charged if the tangible capital asset is put into service.

*Inventories of supplies* - Inventories of supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in first-out basis.

**Measurement Uncertainty**
(*in thousands*)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Accounts Receivable, recognized as $32,596 in these financial statements, includes an allowance for doubtful accounts of $9,533 (2016 – $10,281) for estimated losses on premiums receivable and overpayments which is subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

*Loans Receivable* - Loans receivable, recognized as $2,240,531 (2016 – $2,161,537) in these financial statements, include a specific allowance of $23,899 (2016 – $26,076) and a general allowance of $12,869 (2016 – $16,426) that are subject to measurement uncertainty. The amount established for specific and general allowances of $36,768 (2016 – $42,502) to cover estimated losses on loans could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Provisions are established for specifically identified potential losses on loans. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recognized investment in the loan by the discounted net present value of the security and the cost of realization. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the ministry establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

*Indemnities Payable* - Estimated indemnities payable of $333,922 (2016 – $167,535) and corresponding contributions and receivables from the Government of Canada are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $155,092 to $211,720.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**(d) Future Accounting Changes**

The Public Sector Accounting Board issued these following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
  PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
  PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; and PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

- **PS 3450 Financial Instruments (effective April 1, 2019)**
  The ministry has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601, Foreign Currency Translation; PS 1201, Financial Statement Presentation; and PS 3041, Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement, and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

**Note 3 Government Reorganization**

In November 2015, the government announced a review of agencies, board and commissions. As a result of this review, the dissolution of Agricultural Development Committee, Agricultural Operation Practices Act Policy Advisory Group, Alberta Farm Safety Advisory Council, Alberta Grains Council, Alberta Livestock and Meat Agency Ltd. (the Agency) and Alberta Next Generation Advisory Council was announced on April 15, 2016. Programs previously delivered by the Agency are now delivered by the Department.

Comparatives for 2016 have been restated as if the Ministry had always been assigned its current responsibilities.

**Note 4 Cash and Cash Equivalents**
(in thousands)

Cash and Cash Equivalents include deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital.

| | 2017 | 2016 |
|---|---|---|
| Cash | $ 482,445 | $ 344,388 |
| | $ 482,445 | $ 344,388 |

**Note 5 Accounts Receivable**
(in thousands)

Accounts receivable are unsecured and non-interest bearing.

| | Gross Amount | 2017 Allowance for Doubtful Accounts | Net Realizable Value | 2016 Net Realizable Value |
|---|---|---|---|---|
| Accounts receivable | $ 32,596 | $ 9,533 | $ 23,063 | $ 27,656 |
| Due from Government of Canada | 231,230 | - | 231,230 | 240,408 |
| Due from Other Governments | 25,770 | - | 25,770 | 1,683 |
| Premiums from Insured Persons | 5,698 | - | 5,698 | 2,816 |
| | $ 295,294 | $ 9,533 | $ 285,761 | $ 272,563 |

**Note 6 Accounts Payable and Accrued Liabilities**
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| Accounts Payable – General | $ 36,390 | $ 155,974 |
| Manpower | 27,218 | 47,077 |
| Grants | 8,612 | 17,902 |
| Supplies and Services and Capital Purchases | 54,632 | 40,491 |
| Reinsurance Premiums to Government of Canada | 20 | 19 |
| Western Livestock Price Insurance Program | - | 606 |
| | $ 126,872 | $ 262,069 |

**Note 7 Credit and Interest Rate Risk**
(in thousands)

**Credit Risk** - Credit risk is the risk that a borrower may not pay amounts owing thus resulting in a loss.

The following breakdown of the loans receivable provides an indication of the concentration of credit risk in the loan portfolio.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Dollar | Percentage | Dollar | Percentage |
| Loans receivable by individual sector: | | | | |
| Grain and Oilseeds | $ 1,163,570 | 52% | $ 1,103,696 | 51% |
| Cattle | 609,191 | 27% | 568,043 | 26% |
| Accommodations and Other Services | 147,267 | 7% | 132,867 | 6% |
| Manufacturing | 98,126 | 4% | 101,996 | 5% |
| Other Livestock | 72,254 | 3% | 81,430 | 4% |
| Trade - Retail and Wholesale | 42,441 | 2% | 50,415 | 2% |
| Commercial and Industrial | 30,565 | 1% | 37,016 | 2% |
| Transportation and Warehousing | 24,488 | 1% | 26,718 | 1% |
| Professional Services | 19,601 | 1% | 24,632 | 1% |
| Other | 69,733 | 3% | 77,155 | 4% |
| Allowance | (36,768) | -1% | (42,502) | -2% |
| | $ 2,240,468 | 100% | $ 2,161,466 | 100% |

**Note 7 Credit and Interest Rate Risk (continued)**

**Interest Rate Risk** - Interest rate risk is the impact future changes in interest rates has on cash flows and fair values of assets and liabilities. Loan receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The ministry allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the ministry's loan portfolio and borrowing provides additional information on interest rate risk.

| | Scheduled Repayment [1] | | | | Not Interest Rate Sensitive [2] | 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | Over 10 Years | | Total | Total |
| | | | | *(in thousands)* | | | |
| Loan balances | $ 223,417 | $ 652,827 | $ 624,264 | $ 750,480 | $ (10,520) | $ 2,240,468 | $ 2,161,466 |
| Yield [3] | 3.69% | 3.75% | 3.78% | 3.26% | - | 3.68% | 3.88% |
| Rural utilities | $ 63 | $ - | $ - | $ - | $ - | $ 63 | $ 71 |
| Borrowing from | | | | | | | |
| Government of Alberta | $ 168,780 | $ 885,633 | $ 886,583 | $ 250,000 | $ 15,544 | $ 2,206,540 | $ 2,146,362 |
| Yield [3] | 3.28% | 3.28% | 3.21% | 3.04% | - | 3.25% | 3.45% |
| Net gap | $ 54,700 | $ (232,806) | $ (262,319) | $ 500,480 | $ (26,064) | $ 33,991 | $ 15,175 |

(1) For loan balances, scheduled repayments of principal and interest are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest, and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

**Note 8 Deferred Contributions**
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| Unspent deferred capital contributions and transfers (a) | $ 592 | $ 431 |
| Spent deferred capital contributions and transfers (b) | 13,508 | 13,602 |
| Deferred revenue (c) | 12,039 | 16,960 |
| | $ 26,139 | $ 30,993 |

(a) Unspent deferred capital contributions and transfers

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Federal Government | Non-government | Total | Total |
| Balance, beginning of year | $ 420 | $ 11 | $ 431 | $ 1,107 |
| Cash contributions received/receivable during year | 3,497 | 171 | 3,668 | 4,690 |
| Transferred to spent deferred capital contributions and transfers | (3,497) | (10) | (3,507) | (5,366) |
| Balance, end of year | $ 420 | $ 172 | $ 592 | $ 431 |

(b) Spent deferred capital contributions and transfers

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Federal Government | Non-government | Total | Total |
| Balance, beginning of year | $ 11,628 | $ 1,974 | $ 13,602 | $ 12,900 |
| Transferred capital assets received/receviable | - | - | - | - |
| Transferred from unspent deferred capital contributions and transfers | 3,497 | 10 | 3,507 | 5,366 |
| Less amounts recognized as revenue | (3,354) | (247) | (3,601) | (4,664) |
| Balance, end of year | $ 11,771 | $ 1,737 | $ 13,508 | $ 13,602 |

(c) Deferred revenue

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Government of Alberta | Non-government | Total | Total |
| Balance, beginning of year | $ 1,171 | $ 15,789 | $ 16,960 | $ 8,524 |
| Cash contributions received/receivable during year | 1,240 | 23,639 | 24,879 | 18,752 |
| Less amounts recognized as revenue | (1,153) | (28,647) | (29,800) | (10,316) |
| Balance, end of year | $ 1,258 | $ 10,781 | $ 12,039 | $ 16,960 |

**Note 9 Liability For Contaminated Sites**
(in thousands)

Contaminated sites are a result of contaminations of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from operations that are no longer in productive use and is recognized when all of the following criteria are met:

i. an environmental standard exists;
ii. contamination exceeds the environmental standard;
iii. the Ministry is directly responsible or accepts responsibility;
iv. it is expected that future economic benefits will be given up; and
v. a reasonable estimate of the amount can be made.

**Note 9 Liability For Contaminated Sites (continued)**

The composition of liabilities is as follows:

| | Total | |
|---|---|---|
| | 2017 | 2016 (Restated) |
| Liabilities, beginning of year | $ 5,263 | $ 4,883 |
| Additions to liabilities during the year | - | - |
| Change in estimate related to existing sites | 373 | 1,637 |
| Remediation work performed | (589) | (1,257) |
| Liabilities, end of year | $ 5,047 | $ 5,263 |

**Note 10 Contingent Liabilities**
(in thousands)

The ministry is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The ministry has been named in six (2016: three) claims of which the outcome is not determinable. Of these claims, four (2016: one) have a specified amount totaling $520 (2016: $300). The remaining two (2016: two) have no amount specified. One claim is covered in whole by the Alberta Risk Management Fund. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

**Note 11 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the ministry to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2017 | 2016 |
|---|---|---|
| Obligations under operating Leases, contracts and programs | $ 175,989 | $ 194,561 |
| Approved, undisbursed loans | 187,126 | 208,362 |
| | $ 363,115 | $ 402,923 |

Estimated payment requirements for each of the next five years and thereafter are as follows:

**Obligations Under Operating Leases, Contracts and Programs**

| | Total |
|---|---|
| 2017-18 | $ 73,886 |
| 2018-19 | 33,481 |
| 2019-20 | 25,216 |
| 2020-21 | 13,696 |
| 2021-22 | 10,852 |
| Thereafter | 18,858 |
| | $ 175,989 |

**Note 11 Contractual Obligations (continued)**

**Loans and Advances**

| | Total |
|---|---|
| 2017-18 | $ 187,126 |
| | $ 187,126 |

**Note 12 Guarantees**
(in thousands)

| | 2017 | 2016 | Expiry Date |
|---|---|---|---|
| Feeder Associations | $ 63,692 | $ 54,847 | Ongoing |
| Agriculture Financial Services Corporation Guarantees | 13,112 | 27,465 | Variable |
| | 76,804 | 82,312 | |
| Allowance for Loan Guarantees | - | (150) | |
| | $ 76,804 | $ 82,162 | |

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the ministry. Prior to issuing a loan, security is taken. The security taken depends on the nature of the loan. There are currently no outstanding guarantees under the *Rural Utilities Act*.

Included in Agriculture Financial Services Corporation guarantees is $8.75 million guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

**Note 13 Trust Funds Under Administration**
(in thousands)

The ministry administers trust funds that are regulated funds consisting of public money over which the legislature has no power of appropriation. Because the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the ministry's financial statements.

At March 31, 2017 trust funds under administration were as follows:

| | 2017 | 2016 |
|---|---|---|
| 4-H General Trust | $ 96 | $ 120 |
| Claude Gallinger Memorial Trust Fund | 21 | 21 |
| Performance Deposit Trust | 1,991 | 1,326 |
| Forests Act Securities General Trust | 1,503 | 1,846 |
| | $ 3,611 | $ 3,313 |

In addition to the above trust funds under administration, the ministry holds bank guarantees in the form of letters of credit and promissory notes as follows

| | 2017 | 2016 |
|---|---|---|
| Performance Deposit Trust | $ 6,049 | $ 5,361 |
| Forests Act Securities General Trust | 1,387 | 1,264 |
| | $ 7,436 | $ 6,625 |

**Note 14 Payments Under Agreement**
(in thousands)

The ministry has entered into agreements to deliver fire emergency services. Costs under these agreements are incurred by the department under the Mutual Aid Resource Sharing Agreement with other government organizations. Accounts receivable includes $1,836 (2016 - $3,744) and accounts payable includes $94 (2016 - $151) relating to payments under agreements.

Amounts paid and payable under agreement with other government organizations are as follows:

| | 2017 | 2016 |
|---|---|---|
| Canadian Governments | $ 3,075 | $ 2,042 |
| United States Governments | 286 | 3,823 |
| | $ 3,361 | $ 5,865 |

**Note 15 Adjustments to Net Assets**
(in thousands)

The reconciliation of adjustments to net assets is as follows:

| | 2017 | 2016 |
|---|---|---|
| Non-Grant Transfer of Tangible Capital Asset from other Government Departments | $ 1,126 | $ - |
| Tangible Capital Asset Addition Relating To a Prior Year | - | 304 |
| | $ 1,126 | $ 304 |

**Note 16 Benefit Plans**
(in thousands)

The ministry participates in the multi-employer pension plans: Management Employees Pension Plan (MEPP) and Public Service Pension Plan (PSPP) and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $25,667 for the year ended March 31, 2017 (2016: $25,485).

At December 31, 2016, MEPP reported a surplus of $402,033 (2015: surplus $299,051) and the PSPP reported a surplus of $302,975 (2015: deficiency $133,188)

At December 31, 2016, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $50,020 (2015: deficiency $16,305).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2017, the Bargaining Unit Plan reported an actuarial deficiency of $101,515 (2016: surplus $83,006) and the Management, Opted Out, and Excluded Plan reported an actuarial surplus of $31,439 (2016: surplus $29,246). The expense for these two plans is limited to the employer's annual contributions for the year.

**Note 17 Comparative Figures**

Certain 2016 figures have been reclassified to conform to the 2017 presentation.

**Note 18 Budget**

The 2016-2017 Government and Lottery Fund Estimates were approved on May 27, 2016.

**Note 19 Approval of the Consolidated Financial Statements**

The deputy minister and senior financial officer approved these consolidated financial statements.

Schedule 1

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED REVENUES

YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| Government Transfers | | |
| Government of Alberta Grants | $ 789 | $ 677 |
| Federal Government Grants | | |
| Agriculture Insurance | 240,585 | 191,995 |
| Agriculture Income Support | 92,039 | 28,515 |
| Growing Forward | 51,990 | 47,214 |
| Other | 9,938 | 40,640 |
| | 395,341 | 309,041 |
| Investment Income | | |
| Agriculture Insurance | 40,969 | 43,554 |
| Lending | 86,976 | 88,003 |
| Other | 1,979 | 1,756 |
| | 129,924 | 133,313 |
| Premiums, Fees and Licenses | | |
| Premiums from Insured Persons | 370,334 | 298,890 |
| Timber Royalties and Fees | 69,748 | 51,094 |
| Other | 20,578 | 17,881 |
| | 460,660 | 367,865 |
| Other Revenue | 17,725 | 12,781 |
| Total Revenues | $ 1,003,650 | $ 823,000 |

Schedule 2

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual (in thousands) | 2016 Actual |
|---|---|---|---|
| Indemnities | $ 504,725 | $ 780,284 | $ 604,982 |
| Grants | 125,056 | 151,837 | 162,160 |
| Salaries, Wages, Employment Contracts and Benefits | 253,544 | 277,959 | 281,396 |
| Interest | 71,829 | 68,590 | 70,131 |
| Supplies and Services | 151,219 | 339,365 | 475,747 |
| Financial Transactions and Other | 36,331 | 31,197 | 31,879 |
| Consumption of Inventory | 1,310 | 875 | 2,327 |
| Amortization of Tangible Capital Assets | 29,245 | 24,965 | 24,911 |
| Total | $ 1,173,259 | $ 1,675,072 | $ 1,653,533 |

Schedule 3

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED LOANS RECEIVABLE

YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| Loans Receivable | $ 2,251,298 | $ 2,177,631 |
| Accrued Interest | 26,060 | 26,483 |
| | 2,277,358 | 2,204,114 |
| Less Allowance for Doubtful Accounts | $ (36,788) | $ (42,526) |
| Less Loan Discounts | (39) | (51) |
| | $ 2,240,531 | $ 2,161,537 |

Fair values of loans receivable are not disclosed. Determining fair values with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

The allowance for doubtful accounts of $36,768 (2016 – $38,374) includes a specific allowance of $23,899 (2016 – $26,076) on impaired loans outstanding of $40,697 (2016 - $41,535), excluding unamortized loan discounts.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $4,690,358 (2016 - $4,289,439).

The composition of the loans receivable balance by range of effective annual interest rates is as follows:

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| Effective annual Interest Rate | | |
| Less than or equal to 2% | $ 177,526 | $ 125,384 |
| 2.01% to 3.00% | 450,635 | 378,294 |
| 3.01% to 4.00% | 659,537 | 631,527 |
| 4.01% to 5.00% | 477,080 | 484,461 |
| 5.01% to 6.00% | 316,742 | 340,313 |
| 6.01% to 7.00% | 146,694 | 185,986 |
| 7.01% to 8.00% | 17,103 | 24,710 |
| Over 8% | 5,922 | 6,881 |
| | 2,251,239 | 2,177,556 |
| Accrued interest | 26,060 | 26,483 |
| Allowance for doubtful accounts | (36,768) | (42,502) |
| | $ 2,240,531 | $ 2,161,537 |
| Weighted average annual interest rate | 3.90% | 4.09% |

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED INVESTMENTS

YEAR ENDED MARCH 31, 2017
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| Bonds and Debentures | | |
| Government of Canada, direct and guaranteed | $ 952,752 | $ 822,501 |
| Other provincial, direct and guaranteed | 216,590 | 200,711 |
| | 1,169,342 | 1,023,212 |
| Corporate Securities | 943,460 | 856,283 |
| | 2,112,802 | 1,879,495 |
| Accrued interest | 11,599 | 11,921 |
| | $ 2,124,401 | $ 1,891,416 |

| | Term to Maturity | | | | |
|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | 2017 Total | 2016 Total |
| Bonds and Debentures | $ 647 | $ 1,075,256 | $ 93,439 | $ 1,169,342 | $ 1,023,212 |
| Yield | 0.79% | 1.01% | 1.80% | 1.08% | 0.90% |
| Corporate Securities | 3,049 | 940,411 | - | 943,460 | 856,283 |
| Yield | 1.19% | 1.63% | - | 1.62% | 1.54% |
| | 3,696 | 2,015,667 | 93,439 | 2,112,802 | 1,879,495 |
| Accrued Interest | 4 | 10,765 | 830 | 11,599 | 11,921 |
| | $ 3,700 | $ 2,026,432 | $ 94,269 | $ 2,124,401 | $ 1,891,416 |

The fair value of investments at March 31, 2017 is $2,123,136 (2016 - $1,902,350). Fair value is based on quoted market prices excluding accrued interest.

Schedule 5

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED TANGIBLE CAPITAL ASSETS

YEAR ENDED MARCH 31, 2017

(in thousands)

| Estimated Useful Life | Land Indefinite | Buildings 25 - 40 years | Equipment and Vehicles 5 - 35 years | Computer Hardware and Software 2 - 10 years | Land Improvements 10 years | Leasehold Improvements 5 years | 2017 Total | 2016 Total (Note 15) |
|---|---|---|---|---|---|---|---|---|
| **Historical Cost** [1] | | | | | | | | |
| Beginning of Year | $ 1,827 | $ 92,749 | $ 263,667 | $ 152,638 | $ 5,942 | $ 152 | $ 516,975 | $ 498,922 |
| Additions [2] | - | 7,132 | 10,397 | 10,248 | 289 | - | 28,066 | 27,030 |
| Disposals, Including [3] Write-downs | - | (190) | (1,246) | (576) | - | (133) | (2,145) | (8,977) |
| | $ 1,827 | $ 99,691 | $ 272,818 | $ 162,310 | $ 6,231 | $ 19 | $ 542,896 | $ 516,975 |
| **Accumulated Amortization** | | | | | | | | |
| Beginning of Year | $ - | $ 20,289 | $ 145,107 | $ 105,640 | $ 5,439 | $ 133 | $ 276,608 | $ 260,033 |
| Amortization Expense [4] | - | 1,451 | 13,705 | 10,048 | 64 | - | 25,268 | 24,911 |
| Effect of Disposals | - | (15) | (1,134) | (542) | - | (133) | (1,824) | (8,336) |
| | $ - | $ 21,725 | $ 157,678 | $ 115,146 | $ 5,503 | $ - | $ 300,052 | $ 276,608 |
| **Net Book Value at March 31, 2017** | $ 1,827 | $ 77,966 | $ 115,140 | $ 47,164 | $ 728 | $ 19 | $ 242,844 | |
| **Net Book Value at March 31, 2016** | $ 1,827 | $ 72,460 | $ 118,560 | $ 46,998 | $ 503 | $ 19 | | $ 240,367 |

(1) Historical cost includes work-in-progress at March 31, 2017 totaling $55,591 comprised of: building $37,864 (2016 - $31,558), equipment $3,658 (2016 - $2,961), computer hardware and software $15,519 (2016 - $9,335) and land improvements $550 (2016 $271).

(2) Includes donated tangible capital assets of $4,182. Includes transfer from Alberta Seniors and Housing $280, Service Alberta $725 and Alberta Environment and Parks $596.

(3) Includes transfer to Alberta Infrastructure $171.

(4) Includes transfer from Alberta Environment and Parks of $303.

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED BORROWING FROM THE GOVERNMENT OF ALBERTA

YEAR ENDED MARCH. 31 2017
(in thousands)

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

| | 2017 | 2016 |
|---|---|---|
| **Effective Annual Interest Rate** | | |
| Less than or equal to 2% | $ 370,000 | $ 345,000 |
| 2.01% to 3.00% | 583,000 | 483,000 |
| 3.01% to 4.00% | 759,238 | 809,238 |
| 4.01% to 5.00% | 460,752 | 460,751 |
| 5.01% to 6.00% | 18,006 | 33,513 |
| | 2,190,996 | 2,131,502 |
| Accrued interest | 14,668 | 14,503 |
| Unamortized premium | 876 | 357 |
| | $ 2,206,540 | $ 2,146,362 |

The estimated fair value at March 31, 2017 is $2,325,485 (2016 - $2,300,316). Fair value is an approximation of market value to the holder.

Scheduled principal repayments in each of the next five years and thereafter are as follows:

| | | |
|---|---|---|
| Year ending March 31, | 2018 | $ 168,780 |
| | 2019 | 186,092 |
| | 2020 | 293,109 |
| | 2021 | 225,000 |
| | 2022 | 181,432 |
| | Thereafter | 1,136,583 |
| | | $ 2,190,996 |

## MINISTRY OF AGRICULTURE AND FORESTRY

## CONSOLIDATED RELATED PARTY TRANSACTIONS

## YEAR ENDED MARCH 31,2017

(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's consolidated financial statements. Related parties also include key management personnel in the ministry.

The ministry and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The ministry had the following transactions with related parties recognized in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties.

| | 2017 | 2016 |
|---|---|---|
| Revenues: | | |
| Grants | $ - | $ - |
| Other | 1,294 | 1,287 |
| | $ 1,294 | $ 1,287 |
| Expenses - Directly Incurred: | | |
| Grants | $ 7,137 | $ 11,543 |
| Accommodation | 641 | 661 |
| Other services | 8,257 | 9,633 |
| Interest | 67,900 | 69,214 |
| | $ 83,935 | $ 91,051 |
| Tangible Capital Assets Transferred In (Out) | | |
| Ministry of Environment and Parks | $ 292 | $ - |
| Ministry of Service Alberta | 725 | - |
| Ministry of Seniors and Housing | 280 | - |
| Ministry of Infrastructure | (171) | - |
| | $ 1,126 | $ - |
| Payable to | | |
| Ministry of Treasury Board and Finance | $ 2,256,614 | $ 2,246,262 |
| Ministry of Environment and Parks | 775 | 39,227 |
| Ministry of Economic Development and Trade | 230 | 74 |
| Ministry of Advanced Education | 101 | 1,283 |
| Ministry of Education | 1 | - |
| Ministry of Culture and Tourism | - | 5 |
| Ministry of Service Alberta | - | 1 |
| | $ 2,257,721 | $ 2,286,852 |
| Receivable from | | |
| Ministry of Environment and Parks | $ 3 | $ 1,500 |
| Ministry of Econimic Development and Trade | 90 | 2 |
| Ministry of Advanced Education | 14 | 34 |
| Ministry of Education | 85 | 147 |
| Ministry of Municipal Affiars | 23,640 | - |
| | $ 23,832 | $ 1,683 |
| Deferred Revenue from | | |
| Ministry of Economic Development and Trade | $ 309 | $ 107 |
| Ministry of Advanced Education | 47 | 15 |
| Ministry of Education | 902 | 1,049 |
| | $ 1,258 | $ 1,171 |

The ministry also has transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not reported in the consolidated financial statements and are disclosed in Schedule 8.

Note: The ministry receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

Schedule 8

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED ALLOCATED COSTS

YEAR ENDED MARCH 31, 2017
(in thousands)

| | 2017 Expenses - Incurred by Others | | | | | 2016 |
|---|---|---|---|---|---|---|
| Program | Expenses[1] | Accommodation Costs [2] | Legal Services [3] | Business Services[4] | Total Expenses | Total Expenses (Restated - Note 3) |
| Ministry Support Services | $ 23,564 | $ 4,146 | $ 386 | $ 5,552 | $ 33,648 | $ 35,503 |
| Agriculture Policy and Economics | $ 13,875 | 2,612 | 67 | 7 | $ 16,561 | $ 17,364 |
| Agriculture Environment and Water | $ 61,171 | 3,547 | 79 | 10 | $ 64,807 | $ 56,226 |
| Food Safety and Animal Health | $ 45,269 | 7,430 | 125 | 21 | $ 52,845 | $ 49,005 |
| Industry Development | $ 134,414 | 9,515 | 373 | 26 | $ 144,328 | $ 138,711 |
| Forests | $ 425,344 | 14,595 | 390 | 40 | $ 440,369 | $ 601,426 |
| Lending | $ 31,737 | 783 | - | - | $ 32,520 | $ 37,944 |
| Insurance | $ 683,273 | 797 | - | - | $ 684,070 | $ 607,481 |
| Agriculture Income Support | $ 187,835 | 35 | - | - | $ 187,870 | $ 86,966 |
| | $ 1,606,482 | $ 43,460 | $ 1,420 | $ 5,656 | $ 1,657,018 | $ 1,630,626 |

[1] Expenses - Directly incurred per Consolidated Statements of Operations.
[2] Accommodation Costs, including grants in lieu of taxes, allocated by budgeted full-time equivalent employment.
[3] Legal Services Costs allocated by estimated costs incurred by each program.
[4] Business Services Costs, including charges for IT support, vehicles, air transportation, internal audit services and other services, allocated by costs in certain programs.

# Department of Agriculture and Forestry

Financial Statements

Year Ended March 31, 2017


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AUDITOR GENERAL *Alberta*

## Independent Auditor's Report

To the Minister of Agriculture and Forestry

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Department of Agriculture and Forestry, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Agriculture and Forestry as at March 31, 2017, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 2, 2017

Edmonton, Alberta

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual (Restated - Note 3) |
|---|---|---|---|
| | | (in thousands) | |
| **Revenues (Schedule 1)** | | | |
| Government Transfers | | | |
| Federal Government Grants | $ 58,331 | $ 61,928 | $ 87,854 |
| Government of Alberta Grants | - | 1,714 | 1,249 |
| Timber Royalties and Fees | 64,716 | 42,910 | 21,919 |
| Premiums, Fees and Licenses | 2,097 | 2,181 | 2,713 |
| Other Revenue | 11,673 | 17,573 | 12,580 |
| | **136,817** | **126,306** | **126,315** |
| **Expenses - Directly Incurred (Note 2(b), Schedules 3, 4, 7 and 8)** | | | |
| **Programs** | | | |
| Ministry Support Services | 21,346 | 23,564 | 21,247 |
| Agriculture Policy and Economics | 16,708 | 13,876 | 14,464 |
| Agriculture Environment and Water | 53,782 | 61,171 | 52,919 |
| Food Safety and Animal Health | 47,989 | 45,269 | 46,338 |
| Industry Development | 109,020 | 134,414 | 131,184 |
| Forests | 165,518 | 398,350 | 557,680 |
| Livestock and Meat Strategy (Note 3) | 17,610 | - | - |
| Agriculture Insurance and Lending Assistance | | | |
| Lending Assistance | 11,672 | 11,672 | 12,851 |
| Insurance | 232,383 | 278,371 | 219,372 |
| Agriculture Income Support | 60,875 | 85,666 | 46,489 |
| | **736,903** | **1,052,353** | **1,102,544** |
| **Annual Deficit** | **$ (600,086)** | **$ (926,047)** | **$ (976,229)** |

*The accompanying notes and schedules are part of these financial statements.*

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2017

| | 2017 | 2016 (Restated - Note 3 & 13) |
|---|---|---|
| | (in thousands) | |
| **Financial Assets** | | |
| Cash | $ 11,373 | $ 12,053 |
| Accounts Receivable (Note 4) | 53,556 | 48,886 |
| | **64,929** | **60,939** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities (Note 5) | 294,189 | 407,399 |
| Deferred Revenue (Note 6) | 6,229 | 10,028 |
| Unspent Deferred Capital Contributions (Note 6) | 592 | 431 |
| | **301,010** | **417,858** |
| **Net Debt** | **(236,081)** | **(356,919)** |
| **Non-Financial Assets** | | |
| Tangible Capital Assets (Note 7) | 205,574 | 201,701 |
| Inventories of Supplies | 5,267 | 3,782 |
| Prepaid Expenses | 15 | 23 |
| | **210,856** | **205,506** |
| **Net Liabilities Before Spent Deferred Capital Contributions** | **(25,225)** | **(151,413)** |
| Spent Deferred Capital Contributions (Note 6) | 1,933 | 2,315 |
| **Net Liabilities** | **$ (27,158)** | **$ (153,728)** |
| **(Net Liabilities) / Net Assets at Beginning of Year** | $ (153,728) | $ 129,551 |
| Adjustments to Net Assets (Note 13) | 1,126 | 304 |
| Annual Deficit | (926,047) | (976,229) |
| Net Financing Provided from General Revenues | 1,051,491 | 692,646 |
| **Net Liabilities at End of Year** | **$ (27,158)** | **$ (153,728)** |

Contingent Liabilities and Contractual Obligations (Notes 8 and 9)

*The accompanying notes and schedules are part of these financial statements.*

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CHANGE IN NET DEBT

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual (Restated - Note 3) |
|---|---|---|---|
| | | (in thousands) | |
| **Annual Deficit** | $ (600,086) | $ (926,047) | $ (976,229) |
| Acquisition of Tangible Capital Assets | (15,491) | (14,917) | (19,955) |
| Amortization of Tangible Capital Assets (Note 7) | 18,780 | 16,236 | 14,910 |
| (Gain) Loss on Sale of Tangible Capital Assets | | (15) | 36 |
| Donated Tangible Capital Assets | | (4,182) | - |
| Proceeds on Sale of Tangible Capital Assets | | 15 | 85 |
| Write-downs of Tangible Capital Assets | | 116 | 498 |
| Acquisition of Inventories of Supplies | (1,310) | (2,360) | (1,729) |
| Consumption of Inventories of Supplies | 1,310 | 875 | 2,327 |
| Change in Prepaid Expenses | | 8 | - |
| Change in Spent Deferred Capital Contribution (Note 6) | | (382) | 544 |
| Net Financing Provided from General Revenue | | 1,051,491 | 692,646 |
| **Decrease (Increase) in (Net Debt)** | | $ 120,838 | $ (286,867) |
| **(Net Debt) at Beginning of Year** | | (356,919) | (70,052) |
| **(Net Debt) at End of Year** | | $ (236,081) | $ (356,919) |

*The accompanying notes and schedules are part of these financial statements.*

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 (Restated - Note 3) |
|---|---|---|
| | (in thousands) | |
| **Operating Transactions** | | |
| Annual Deficit | $ (926,047) | $ (976,229) |
| Non-cash Items Included in Net Operating Results | | |
| Amortization of Tangible Capital Assets (Note 7) | 16,236 | 14,910 |
| Deferred Contribution recognized as Revenue (Note 6) | (412) | (481) |
| Donated Tangible Capital Assets | (4,182) | - |
| (Gain) Loss on Disposal of Tangible Capital Assets | (15) | 36 |
| Write-downs of Tangible Capital Assets | 116 | 498 |
| | **(914,304)** | **(961,266)** |
| (Increase) Decrease in Accounts Receivable | (4,670) | 10,161 |
| (Increase) Decrease in Inventories of Supplies | (1,485) | 598 |
| Decrease in Prepaid Expenses | 8 | - |
| (Decrease) Increase in Accounts Payable and Accrued Liabilities | (113,210) | 272,140 |
| (Decrease) Increase in Unearned Revenue | (3,799) | 749 |
| Cash Applied to Operating Transactions | **(1,037,460)** | **(677,618)** |
| **Capital Transactions** | | |
| Acquisition of Tangible Capital Assets (Note 7) | (14,917) | (19,955) |
| Proceeds on Disposal of Tangible Capital Assets | 15 | 85 |
| Cash Applied to Capital Transactions | **(14,902)** | **(19,870)** |
| **Financing Transactions** | | |
| Contributions Restricted for Capital | 191 | 280 |
| Net Financing Provided from General Revenues | 1,051,491 | 692,646 |
| Cash Provided by Financing Transactions | **1,051,682** | **692,926** |
| **Decrease in Cash** | **(680)** | **(4,562)** |
| **Cash at Beginning of Year** | **12,053** | **16,615** |
| **Cash at End of Year** | **$ 11,373** | **$ 12,053** |

*The accompanying notes and schedules are part of these financial statements.*

**Notes to the Financial Statements for the Year Ended March 31, 2017**

**Note 1 Authority and Purpose**

The Department of Agriculture and Forestry operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000. The purpose of the Department is to enable the growth, prosperity and diversification of Alberta's agriculture, food and forest sectors; to inspire public confidence in wildfire and forest management and the quality and safety of food; to support environmentally sustainable resource management practices; and to lead collaboration that enables safe and resilient rural communities through policies, legislation, regulations and services. The Department is exempt from income taxes under the *Income Tax Act*.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian public sector accounting standards.

**(a) Reporting Entity**

The reporting entity is the Department of Agriculture and Forestry, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the Minister are Agriculture Financial Services Corporation, and Environmental Protection and Enhancement Fund. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

All departments of the Government of Alberta (GoA) operate within the General Revenue Fund (the Fund). The Fund is administered by the President of Treasury Board and Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net Financing provided from General Revenues is the difference between all cash receipts and all cash disbursements made.

**(b) Basis of Financial Reporting**

**Revenues**

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recognized as unearned revenue.

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

*Government transfers* - Transfers from the Government of Alberta (GoA), federal and other governments are referred to as government transfers.

Government transfers are recognized as deferred capital contributions and deferred revenue if the eligibility criteria of the transfer, or the stipulations together with the department's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the department complies with its communicated uses of these transfers.

All other government transfers, without terms for the use of the transfer, are recognized as revenue when the transfer is authorized and the department meets the eligibility criteria (if any).

*Credit or Recovery* - Credit or recovery initiatives provide a basis for authorizing spending. Credits or recoveries are shown in the details of the government estimates for a supply vote. If budgeted revenues are not fully realized, spending is reduced by an equivalent amount. If actual credit or recovery amounts exceed budget, the department may, with the approval of the Treasury Board Committee, use the excess to fund additional expenses of the program. Schedule 2 discloses information on the department's credit or recovery initiatives.

**Expenses**

*Directly Incurred* - Directly incurred expenses are those costs the department has primary responsibility and accountability for, as reflected in the government's budget documents.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets;
- pension costs, which are the cost of employer contributions for current service of employees during the year; and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

*Incurred by Others* - Services contributed by other entities in support of the department's operations are not recognized and are disclosed in Schedule 7 and allocated to programs in Schedule 8.

**Valuation of Financial Assets and Liabilities**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

**Financial Assets**

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the department are limited to cash and financial claims, such as advances to and receivables from other organizations, employees and other individuals.

*Accounts Receivable* - Accounts receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

**Liabilities**

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

**Non-Financial Assets**

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;
(b) may be consumed in the normal course of operations; and
(c) are not for sale in the normal course of operations.

Non-financial assets of the department are limited to tangible capital assets, prepaid expenses and inventories of supplies.

*Tangible Capital Assets* - Tangible capital assets of the department are recognized at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for major systems enhancements is $100,000. The threshold for all other tangible capital assets is $5,000. All land is capitalized.

Contributed tangible capital assets are recognized at their fair value at the time of contribution.

Amortization is only charged if the tangible capital asset is put into service.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

When physical assets (tangible capital assets and inventories of supplies) are gifted or sold for a nominal sum, the net book value of these physical assets less any nominal proceeds are recognized as grants in kind.

*Inventories of Supplies* - Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Assets acquired by right are not included.

**Measurement Uncertainty**
(in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The department's contribution to Agriculture Financial Services Corporation for the department's share of program payments under the AgriInvest, AgriStability and AgriRecovery programs, disclosed as $85,666 in these financial statements, is subject to measurement uncertainty. The department's contribution for these programs could change substantially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $73,959 to $97,448.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

**(c) Future Accounting Changes**

The Public Sector Accounting Board issued these following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
  PS 2200 defines a related party and establishes disclosures required for related party transactions. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
  PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; and PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

- **PS 3450 Financial Instruments (effective April 1, 2019)**
  Adoption of this standard requires corresponding adoption of PS 2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation, and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. The department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier.

Management is currently assessing the impact of these standards on the financial statements.

**Note 3 Government Reorganization**
(in thousands)

In November 2015, the government announced a review of agencies, board and commissions. As a result of this review, the dissolution of Agricultural Development Committee, Agricultural Operation Practices Act Policy Advisory Group, Alberta Farm Safety Advisory Council, Alberta Grains Council, Alberta Livestock and Meat Agency Ltd. (the Agency) and Alberta Next Generation Advisory Council was announced on April 15, 2016. Cash and Cash equivalents of the Agency, in the amount of $4,410, were transferred to the Fund. Programs previously delivered by the Agency are now delivered by the Department.

Comparatives for 2016 have been restated as if the Department had always been assigned with its current responsibilities.

| | As Previously Reported | Transfer from ALMA | As Restated |
|---|---|---|---|
| Net Liabilities at March 31, 2015 | $ 125,773 | $ 3,778 | $ 129,551 |
| Annual Deficit | (975,925) | (304) | (976,229) |
| Net Financing provided from General Revenues | 692,646 | - | 692,646 |
| **Net Liabilities at March 31, 2016** | **$ (157,506)** | **$ 3,474** | **$ (154,032)** |
| **Net Debt at March 31, 2015** | **$ (72,741)** | **$ 2,689** | **$ (70,052)** |

**Note 4 Accounts Receivable**
(in thousands)

Accounts receivable are unsecured and non-interest bearing.

| | Gross Amount | 2017 Allowance for Doubtful Accounts | Net Realizable Value | 2016 Net Realizable Value (Restated - Note 3) |
|---|---|---|---|---|
| Accounts receivable | $ 19,389 | $ 264 | $ 19,125 | $ 2,542 |
| Due from the Government of Canada | 34,261 | - | 34,261 | 46,133 |
| Refunds from suppliers | 104 | - | 104 | 123 |
| Loans and advances | 87 | 21 | 66 | 88 |
| | $ 53,841 | $ 285 | $ 53,556 | $ 48,886 |

**Note 5 Accounts Payable and Accrued Liabilities**
(in thousands)

| | 2017 | 2016 (Restated - Note 3) |
|---|---|---|
| Accounts Payable – General | $ 3,646 | $ 2,606 |
| Manpower | 20,850 | 40,380 |
| Grants | 232,878 | 335,075 |
| Supplies and Services and Capital Purchases | 36,815 | 29,338 |
| | $ 294,189 | $ 407,399 |

**Note 6 Deferred Contributions**
(in thousands)

| | 2017 | 2016 (Restated - Note 3) |
|---|---|---|
| Unspent Deferred Capital Contributions (i) | $ 592 | $ 431 |
| Spent Deferred Capital Contributions (ii) | 1,933 | 2,315 |
| Deferred Revenue (iii) | 6,229 | 10,028 |
| | $ 8,754 | $ 12,774 |

(i) Unspent Deferred Capital Contributions and Transfers

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Government of Alberta | Federal Government | Non-government | Total | Total |
| Balance at Beginning of Year | $ - | $ 420 | $ 11 | $ 431 | $ 1,176 |
| Cash Contributions Received/Receivable During Year | 20 | - | 171 | 191 | 280 |
| Transferred to Spent Deferred Capital Contributions | (20) | - | (10) | (30) | (1,025) |
| Balance at End of Year | $ - | $ 420 | $ 172 | $ 592 | $ 431 |

(ii) Spent Deferred Capital Contributions and Transfers

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Government of Alberta | Federal Government | Non-government | Total | Total |
| Balance at Beginning of Year | $ 424 | $ 692 | $ 1,199 | $ 2,315 | $ 1,771 |
| Transferred Capital Assets Received/Receviable | - | - | - | - | - |
| Transferred from Unspent Deferred Capital Contributions | 20 | - | 10 | 30 | 1,025 |
| Less Amounts Recognized as Revenue | (63) | (199) | (150) | (412) | (481) |
| Balance at End of Year | $ 381 | $ 493 | $ 1,059 | $ 1,933 | $ 2,315 |

(iii) Deferred Revenue

| | 2017 | | | | 2016 (Restated - Note 3) |
|---|---|---|---|---|---|
| | Government of Alberta | Federal Government | Non-government | Total | Total |
| Balance at Beginning of Year | $ 1,171 | $ - | $ 8,857 | $ 10,028 | $ 4,175 |
| Cash Contributions Received/Receivable During Year | 1,240 | - | 17,829 | 19,069 | 11,820 |
| Less Amounts Recognized as Revenue | (1,153) | - | (21,715) | (22,868) | (5,967) |
| Balance at End of Year | $ 1,258 | $ - | $ 4,971 | $ 6,229 | $ 10,028 |

**Note 7 Tangible Capital Assets**
(in thousands)

| Estimated Useful Life | Buildings 40 years | Equipment[1] 5 - 35 years | Computer Hardware and Software 3 - 5 years | Leasehold Improvements 5 years | Land Improvements 10 years | 2017 Total | 2016 Total (Restated - Note 3 & 13) |
|---|---|---|---|---|---|---|---|
| **Historical Cost[2]** | | | | | | | |
| Beginning of Year | $ 82,762 | $ 251,441 | $ 49,209 | $ 152 | $ 5,942 | $ 389,506 | $ 377,045 |
| Additions[3] | 7,113 | 10,313 | 2,985 | - | 289 | 20,700 | 19,955 |
| Disposals, Including[4] Write-downs | (190) | (1,246) | (78) | (133) | - | (1,647) | (7,494) |
| | 89,685 | 260,508 | 52,116 | 19 | 6,231 | 408,559 | 389,506 |
| **Accumulated Amortization** | | | | | | | |
| Beginning of Year | 14,867 | 137,316 | 30,050 | 133 | 5,439 | 187,805 | 179,770 |
| Amortization Expense[5] | 1,065 | 12,631 | 2,780 | - | 64 | 16,540 | 14,910 |
| Effect of Disposals | (15) | (1,134) | (78) | (133) | - | (1,360) | (6,875) |
| | 15,917 | 148,813 | 32,752 | - | 5,503 | 202,985 | 187,805 |
| **Net Book Value at March 31, 2017** | $ 73,768 | $ 111,695 | $ 19,364 | $ 19 | $ 728 | $ 205,574 | |
| **Net Book Value at March 31, 2016** | $ 67,895 | $ 114,125 | $ 19,159 | $ 19 | $ 503 | | $ 201,701 |

(1) Equipment includes vehicles, heavy equipment, office equipment and furniture and other equipment.
(2) Historical cost includes work-in-progress at March 31, 2017 totaling $48,048 comprised of: buildings $37,864 (2016 - $31,558); equipment $3,658 (2016 -$2,961); computer hardware and software $5,976 (2016 - $3,337) and land improvements $550 (2016 - $271).
(3) Includes donated tangible capital assets of $4,182. Includes transfer from Alberta Seniors and Housing $280, Service Alberta $725 and Alberta Environment and Parks $596.
(4) Includes transfer to Alberta Infrastructure $171.
(5) Includes transfer from Alberta Environment and Parks $303.

**Note 8 Contingent Liabilities**
(in thousands)

The department is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The department has been named in three (2016: three) claims of which the outcome is not determinable. Of these claims, one (2016: one) has a specified amount totaling $245 (2016: $300). The remaining two (2016: two) have no amount specified. One claim is covered in whole by the Alberta Risk Management Fund. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

**Note 9 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2017 | 2016 (Restated - Note 3) |
|---|---|---|
| Obligations under Operating Leases, Contracts and Programs | $ 102,871 | $ 132,616 |
| | $ 102,871 | $ 132,616 |

Estimated payment requirements for each of the next five years and thereafter are as follows:

**Obligations Under Operating Leases, Contracts and Programs**

| | Total |
|---|---|
| 2017-18 | $ 34,932 |
| 2018-19 | 22,031 |
| 2019-20 | 15,901 |
| 2020-21 | 7,985 |
| 2021-22 | 7,953 |
| Thereafter | 14,069 |
| | $ 102,871 |

**Note 10 Guarantees**
(in thousands)

| | 2017 | 2016 | Expiry Date |
|---|---|---|---|
| Feeder Associations | $ 63,692 | $ 54,847 | Ongoing |
| | $ 63,692 | $ 54,847 | |

Guarantee programs and their limits are established under the following Acts:

- *Feeder Associations Guarantee Act* (authorized guarantee limit set by Order in Council is $100 million)
- *Rural Utilities Act* (authorized guarantee limit set by statute is $50 million). There are currently no outstanding guarantees under this act.

The lender takes appropriate security prior to issuing a loan to the borrower, which is guaranteed by the province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower.

**Note 11 Trust Funds Under Administration**
(in thousands)

The department administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the department's financial statements.

At March 31, 2017 trust funds under administration were as follows:

| | 2017 | 2016 |
|---|---|---|
| 4-H General Trust | $ 96 | $ 120 |
| Claude Gallinger Memorial Trust Fund | 21 | 21 |
| Performance Deposit Trust | 1,991 | 1,326 |
| Forests Act Securities General Trust | 1,503 | 1,846 |
| | $ 3,611 | $ 3,313 |

In addition to the above trust funds under administration, the department holds bank guarantees in the form of letters of credit and promissory notes as follows:

| | 2017 | 2016 |
|---|---|---|
| Performance Deposit Trust | $ 6,049 | $ 5,361 |
| Forests Act Securities General Trust | 1,387 | 1,264 |
| | $ 7,436 | $ 6,625 |

**Note 12 Payments Under Agreement**
(in thousands)

The department has entered into agreements to deliver fire emergency services. Costs under these agreements are incurred by the department under the Mutual Aid Resource Sharing Agreement with other government organizations. Accounts receivable includes $1,863 (2016 - $3,744) and accounts payable includes $94 (2016 - $151) relating to payments under agreements.

Amounts paid and payable under agreement with other government organizations are as follows:

| | 2017 | 2016 |
|---|---|---|
| Canadian Governments | $ 3,075 | $ 2,042 |
| United States Governments | 286 | 3,823 |
| | $ 3,361 | $ 5,865 |

**Note 13 Adjustments to Net Assets**
(in thousands)

The reconciliation of adjustments to net assets is as follows:

| | 2017 | 2016 |
|---|---|---|
| Non-Grant Transfer of Tangible Capital Asset from other Government Departments | $ 1,126 | $ - |
| Tangible Capital Asset Addition Relating To a Prior Year | - | 304 |
| | $ 1,126 | $ 304 |

**Note 14 Benefit Plans**
(in thousands)

The department participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $18,637 for the year ended March 31, 2017 (2016 – $18,839). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2016, the Management Employees Pension Plan reported a surplus of $402,033 (2015 – Surplus $299,051), the Public Service Pension Plan reported a surplus of $302,975 (2015 - deficiency $133,188) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $50,020 (2015 – deficiency $16,305).

The department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2017, the Bargaining Unit Plan reported a surplus of $101,515 (2016 - surplus $83,006) and the Management, Opted Out and Excluded Plan a surplus of $31,439 (2016 - surplus $29,246). The expense for these two plans is limited to the employer's annual contributions for the year.

**Note 15 Comparative Figures**

Certain 2016 figures have been reclassified to conform to the 2017 presentation.

**Note 16 Approval of the Financial Statements**

The deputy minister and the senior financial officer approve these financial statements.

Schedule 1

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

REVENUES

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual (Restated - Note 3) |
|---|---|---|---|
| | | (in thousands) | |
| Government Transfers | | | |
| Government of Alberta Grants | $ - | $ 1,714 | $ 1,249 |
| Federal Government Grants | | | |
| BSE Surveillance | 1,180 | 1,019 | 1,023 |
| Growing Forward | 52,345 | 51,990 | 47,214 |
| Softwood Lumber Agreement[1] | 4,492 | 74 | 24,943 |
| Other | 314 | 8,845 | 14,674 |
| | 58,331 | 63,642 | 89,103 |
| Timber Royalties and Fees | 64,716 | 42,910 | 21,919 |
| Premiums, Fees and Licenses | | | |
| Publications | 230 | 243 | 234 |
| Food Processing Centre Fees | 750 | 712 | 873 |
| Livestock Water Program | 140 | 147 | 83 |
| Meat Services | 225 | 328 | 327 |
| Green Certificate and Home Study | 350 | 497 | 570 |
| Other | 402 | 254 | 626 |
| | 2,097 | 2,181 | 2,713 |
| Other Revenue | | | |
| Project Contributions | 9,644 | 5,582 | 4,079 |
| Rail Hopper Car Revenue | 1,000 | 367 | 543 |
| Refunds of Expenditures Previous Years | - | 4,440 | 2,793 |
| Surplus Sales | - | 71 | 57 |
| Miscellaneous | 1,029 | 7,113 | 5,108 |
| | 11,673 | 17,573 | 12,580 |
| Total Revenues | $ 136,817 | $ 126,306 | $ 126,315 |

[1] The Softwood Lumber Agreement, 2006 requires the Minister of Natural Resources of the Government of Canada to collect a softwood lumber export tax on lumber export products to the United States. The export tax levels are based upon *the Random Lengths* Composite Framing Lumber Price Index (CFLPI). Above a CFLPI level of US$355 the export tax rate is 0 per cent. As the CFLPI falls below US$355, this tax rate increases in increments of 5 per cent until the export tax rate reaches 15 per cent. The export tax collected is transferred to the provinces net of the Government of Canada's administration and legal costs. (Note: Not in thousands)

Schedule 2

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

CREDIT OR RECOVERY

YEAR ENDED MARCH 31, 2017

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Authorized | Actual Revenue Recognized | Deferred Revenue (in thousands) | Total Revenue Received/ Receivable | (Shortfall)/ Excess |
| **Program Operating** | | | | | |
| Ministry Support Services | $ 1,537 | $ 613 | $ - | $ 613 | $ (924) |
| Agriculture Policy and Economics | 2,775 | 2,183 | - | 2,183 | (592) |
| Agriculture Environment and Water | 13,401 | 16,980 | - | 16,980 | 3,579 |
| Food Safety and Animal Health | 14,117 | 14,076 | - | 14,076 | (41) |
| Industry Development | 30,684 | 28,045 | - | 28,045 | (2,639) |
| Forests | 1,930 | 1,162 | - | 1,162 | (768) |
| | $ 64,444 | $ 63,059 | $ - | $ 63,059 | $ (1,385) [1] |
| **Program Capital Investments** | | | | | |
| Ministry Support Services | $ - | $ - | $ - | $ - | $ - |
| Agriculture Policy and Economics | - | - | - | - | - |
| Agriculture Environment and Water | 360 | - | 20 | 20 | (340) |
| Food Safety and Animal Health | - | - | - | - | - |
| Industry Development | 635 | - | 171 | 171 | (464) |
| Forests | - | - | - | - | - |
| | $ 995 | $ - | $ 191 | $ 191 | $ (804) [1] |

Ministry Support Services credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($356) fees for sale of publications ($232) and farm implement dealers' licenses ($25).

Agriculture Policy and Economics credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($2,101) and external contributions ($82).

Agriculture Environment and Water credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($15,810), fees and contributions for Irrigation and Farm Water Program ($375), contributions for Environmental Stewardship ($795).

Food Safety and Animal Health credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($13,454), fees and contributions for Food Safety and Animal Health ($622).

Industry Development credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($20,269), fees and contributions for Research and Extension ($5,881), Food and Bio Processing ($1,173) and external contributions to other projects and initiatives ($722).

Forests credit or recovery initiatives include federal revenue through agreements with the Government of Canada to fund various forestry programs such as the country-wide framework for synthesizing data and reporting on the status of Canadian forests, as well as conducting risk analysis impacts of national significance. Contributions to Forestry Youth Programs and Hinton Training Centre fees are also included.

The revenue of each initiative is included in the Statement of Operations.

[1] Shortfall is deducted from current year's authorized budget, as disclosed in Schedule 4 to the financial statements.

Schedule 3

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2017

| | 2017 | | 2016 |
|---|---|---|---|
| | Budget | Actual | Actual (Restated - Note 3) |
| | | (in thousands) | |
| Salaries, Wages and Employee Benefits | $ 179,523 | $ 181,830 | $ 180,505 |
| Supplies and Services | 105,872 | 93,042 | 101,226 |
| Grants | 431,418 | 760,195 | 802,863 |
| Consumption of Inventory | 1,310 | 875 | 2,327 |
| Amortization of Tangible Capital Assets | 18,780 | 16,236 | 14,910 |
| Financial Transactions and Other | - | 175 | 713 |
| | $ 736,903 | $ 1,052,353 | $ 1,102,544 |

Schedule 4

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

LAPSE/ENCUMBRANCE

YEAR ENDED MARCH 31, 2017

| Program - Operating Expense | | Voted Estimate [1] | Supplementary Estimate [2] | Adjustments [3] | Adjusted Voted Estimate | Voted Actuals [4] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|---|
| | | (in thousands) | | | | | |
| 1 | Ministry Support Services | | | | | | |
| 1.1 | Minister's Office | $ 754 | $ - | $ - | $ 754 | $ 692 | $ 62 |
| 1.2 | Deputy Minister's Office | 796 | - | - | 796 | 684 | 112 |
| 1.3 | Farmers' Advocate | 984 | - | - | 984 | 934 | 50 |
| 1.4 | Corporate Services | 13,643 | - | - | 13,643 | 15,265 | (1,622) |
| 1.5 | Communications | 1,152 | - | - | 1,152 | 1,502 | (350) |
| 1.6 | Human Resources | 3,067 | - | - | 3,067 | 3,033 | 34 |
| | | 20,396 | - | - | 20,396 | 22,110 | (1,714) |
| 2 | Agriculture Policy and Economics | | | | | | |
| 2.1 | Alberta Grains Council | 213 | - | - | 213 | 157 | 56 |
| 2.2 | Marketing Council | 885 | - | - | 885 | 873 | 12 |
| 2.3 | Economics and Competitiveness | 3,608 | - | - | 3,608 | 3,585 | 23 |
| 2.4 | Policy, Strategy and Intergovernmental Affairs | 5,602 | (70) | - | 5,532 | 4,822 | 710 |
| 2.5 | International Marketing and Investment Attraction | 4,800 | (130) | - | 4,670 | 4,319 | 351 |
| | | 15,108 | (200) | - | 14,908 | 13,756 | 1,152 |
| 3 | Agriculture Environment and Water | | | | | | |
| 3.1 | Irrigation and Farm Water | 12,462 | (200) | - | 12,262 | 13,515 | (1,253) |
| 3.2 | Environmental Stewardship | 21,620 | 5,600 | - | 27,220 | 27,911 | (691) |
| | | 34,082 | 5,400 | - | 39,482 | 41,426 | (1,944) |
| 4 | Food Safety and Animal Health | | | | | | |
| 4.1 | Animal Health and Assurance | 12,266 | (200) | 630 | 12,696 | 11,909 | 787 |
| 4.2 | Food Safety and Animal Welfare | 24,470 | (250) | - | 24,220 | 24,028 | 192 |
| 4.3 | Food Chain Traceability | 4,073 | (50) | - | 4,023 | 5,119 | (1,096) |
| 4.4 | Surveillance Support | 5,880 | - | - | 5,880 | 3,044 | 2,836 |
| | | 46,689 | (500) | 630 | 46,819 | 44,100 | 2,719 |

Schedule 4 (continued)

| | | Voted Estimate [1] | Supplementary Estimate [2] | Adjustments [3] | Adjusted Voted Estimate | Voted Actuals [4] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|---|
| 5 | Industry Development | | | | | | |
| 5.1 | Rural Economic Development | 41,199 | 15,251 | 1,000 | 57,450 | 54,840 | 2,610 |
| 5.2 | Research and Extension | 26,646 | (54) | 100 | 26,692 | 38,064 | (11,372) |
| 5.3 | Food and Bio-Processing | 10,313 | (300) | - | 10,013 | 9,380 | 633 |
| 5.4 | Agricultural Service Boards | 11,600 | - | - | 11,600 | 11,615 | (15) |
| 5.5 | Agricultural Societies | 11,462 | - | - | 11,462 | 11,462 | - |
| 5.6 | Agriculture Initiatives | 1,000 | - | - | 1,000 | 900 | 100 |
| | | 102,220 | 14,897 | 1,100 | 118,217 | 126,261 | (8,044) |
| 6 | Agriculture Insurance and Lending Assistance | | | | | | |
| 6.1 | Lending Assistance | 11,672 | - | - | 11,672 | 11,672 | - |
| 6.2 | Insurance | 232,383 | 35,723 | - | 268,106 | 278,371 | (10,265) |
| 6.3 | Agriculture Income Support | 60,875 | 25,503 | - | 86,378 | 85,666 | 712 |
| | | 304,930 | 61,226 | - | 366,156 | 375,709 | (9,553) |
| 7 | Forests | | | | | | |
| 7.1 | Wildfire Management | 86,394 | 252,000 | - | 338,394 | 323,782 | 14,612 |
| 7.2 | Flat Top Complex | 8,714 | - | - | 8,714 | 7,385 | 1,329 |
| 7.3 | Forest Management | 53,880 | (2,000) | - | 51,880 | 47,665 | 4,215 |
| 7.4 | Forest Industry Development | 3,890 | - | - | 3,890 | 7,902 | (4,012) |
| | | 152,878 | 250,000 | - | 402,878 | 386,734 | 16,144 |
| 8 | Livestock and Meat Strategy | 17,610 | - | - | 17,610 | - | 17,610 |
| 9 | Agriculture and Food Innovation Endowment Account | - | - | - | - | - | - |
| 10 | 2013 Alberta Flooding | | | | | | |
| 10.1 | Flood Recovery Interest Rebates | - | | - | - | - | - |
| | | - | - | - | - | - | - |
| | Credit or Recovery (Shortfall) (Schedule 2) | - | - | (1,385) | (1,385) | - | (1,385) |
| Total | | $ 693,913 | $ 330,823 | $ 345 | $ 1,025,081 | $ 1,010,096 | $ 14,985 |
| **Lapse/(Encumbrance)** | | | | | | | $ 14,985 |

Schedule 4 (continued)

| | | Voted Estimate [1] | Supplementary Estimate [2] | Adjustments [3] | Adjusted Voted Estimate | Voted Actuals [4] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|---|
| **Program - Capital Grants** | | | | | | | |
| 3 | Agriculture Environment and Water | | | | | | |
| 3.3 | Irrigation Infrastructure Assistance | 19,000 | - | - | 19,000 | 19,000 | - |
| 5 | Industry Development | | | | | | |
| 5.1 | Rural Economic Development | 3,900 | 1,670 | - | 5,570 | 5,522 | 48 |
| 5.2 | Research and Extension | - | - | 50 | 50 | - | 50 |
| Total | | $ 22,900 | $ 1,670 | $ 50 | $ 24,620 | $ 24,522 | $ 48 |
| **Lapse/(Encumbrance)** | | | | | | | $ 48 |
| **Program - Capital Investment** | | | | | | | |
| 1 | Ministry Support Services | | | | | | |
| 1.4 | Corporate Services | $ 755 | $ - | $ - | $ 755 | $ 392 | $ 363 |
| 2 | Agriculture Policy and Economics | | | | | | |
| 2.3 | Economics and Competitiveness | - | - | - | - | 59 | (59) |
| 3 | Agriculture Environment and Water | | | | | | |
| 3.1 | Irrigation and Farm Water | 460 | - | - | 460 | 393 | 67 |
| 3.2 | Environmental Stewardship | 360 | - | 54 | 414 | 187 | 227 |
| 4 | Food Safety and Animal Health | | | | | | |
| 4.1 | Animal Health and Assurance | - | - | - | - | 25 | (25) |
| 4.2 | Food Safety and Animal Welfare | 280 | - | - | 280 | 792 | (512) |
| 4.3 | Food Chain Traceability | 100 | - | - | 100 | - | 100 |
| 4.4 | Surveillance Support | 108 | - | - | 108 | - | 108 |
| 5 | Industry Development | | | | | | |
| 5.1 | Rural Economic Development | - | - | - | - | 16 | (16) |
| 5.2 | Research and Extension | 1,305 | - | 50 | 1,355 | 1,271 | 84 |
| 5.3 | Food and Bio-Processing | 690 | - | 130 | 820 | 746 | 74 |
| 7 | Forests | | | | | | |
| 7.1 | Wildfire Management | 9,333 | - | 395 | 9,728 | 7,865 | 1,863 |
| 7.2 | Flat Top Complex | 2,100 | - | - | 2,100 | 2,903 | (803) |
| 7.3 | Forest Management | - | - | - | - | 269 | (269) |
| | Credit or Recovery (Shortfall) (Schedule 2) | - | - | (804) | (804) | - | (804) |
| Total | | $ 15,491 | $ - | $ (175) | $ 15,316 | $ 14,918 | $ 398 |
| **Lapse/(Encumbrance)** | | | | | | | $ 398 |

Schedule 4 (continued)

| | Voted Estimate [1] | Supplementary Estimate [2] | Adjustments [3] | Adjusted Voted Estimate | Voted Actuals [4] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|
| **Financial Transactions** | | | | | | |
| 7 Forests | | | | | | |
| 7.1 Wildfire Management | 1,310 | | - | 1,310 | 2,360 | (1,050) |
| Total | $ 1,310 | $ - | $ - | $ 1,310 | $ 2,360 | $ (1,050) |
| **Lapse/(Encumbrance)** | | | | | | $ (1,050) |

[1] As per "Expense Vote by Program", "Capital Investment Vote by Program" and "Financial Transaction Vote by Program" page of 2016-17 Government Estimates.

[2] Per the *Supplementary Supply Esitimates* approved on March 30, 2017.

[3] Adjustments include capital carry forward amounts approved by Treasury Board on July 21, 2016 and credit or recovery shortfalls.

[4] Actuals exclude non-voted amounts such as amortization and valuation adjustments.

Schedule 5

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

LOTTERY FUND ESTIMATES

YEAR ENDED MARCH 31, 2017

| | 2016-17 Lottery Fund Estimates | 2016-17 Actual (in thousands) | Unexpended (Over Expended) |
|---|---|---|---|
| Agricultural Service Boards | $ 11,600 | $ 11,616 | $ (16) |
| Agricultural Societies | 11,462 | 11,436 | 26 |
| Agriculture Initiatives | 1,000 | 900 | 100 |
| | $ 24,062 | $ 23,952 | $ 110 |

This table shows details of the initiatives within the department that are funded by the Lottery Fund and compares it to the actual results.

Schedule 6

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2017

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Base Salary [1] | Other Cash Benefits [2] | Other Non-Cash Benefits [3] | Total | Total |
| Department | | | | | |
| Deputy Minister[4] | $ 286,977 | - | 38,873 | $ 325,850 | $ 366,099 |
| Assistant Deputy Ministers | | | | | |
| Agriculture Policy and Economics | $ 199,882 | - | 54,629 | $ 254,511 | $ 259,913 |
| Industry Development[5] | $ 191,122 | - | 51,683 | $ 242,805 | $ 243,294 |
| Food Safety and Animal Health[6] | $ 187,345 | - | 48,739 | $ 236,084 | $ 256,498 |
| Forests | $ 200,407 | - | 55,133 | $ 255,540 | $ 257,494 |
| Executive Directors | | | | | |
| Human Resources | $ 164,692 | - | 45,308 | $ 210,000 | $ 211,748 |
| Senior Financial Officer | $ 164,692 | - | 11,375 | $ 176,067 | $ 192,913 |
| Extension and Communications | $ 144,537 | 1,656 | 39,637 | $ 185,830 | $ 120,077 |
| Boards and Agencies | | | | | |
| Farmers' Advocate | $ 205,865 | - | 7,463 | $ 213,328 | $ 214,852 |
| General Manager, Agricultural Products Marketing Council[5] | $ 134,810 | 6,052 | 39,950 | $ 180,812 | $ 177,415 |

[1] Base salary includes regular salary and earnings such as acting pay.

[2] Other cash benefits include vacation payouts, lump sum payments and automobile allowances. There were no bonuses paid in 2017.

[3] Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, tuition and professional memberships.

[4] Automobile allowance provided through the year, included in Other Cash Benefits.

[5] The position was occupied by two individuals at different times during the year. Occupancy of the position changed October 24, 2016.

[6] The position was occupied by six individuals at different times during the year. Occupancy of the position changed October 24, 2016.

Schedule 7

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2017
(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the GoA's financial statements. Related parties also include key management personnel in the department.

The department and its employees paid or collected certain taxes and fees set by regulation for premiums, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The department had the following transactions with related parties reported on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities | |
|---|---|---|---|---|
| | 2017 | 2016 (Restated - Note 3) | 2017 | 2016 (Restated - Note 3) |
| Revenues | | | | |
| Grants | $ 925 | $ 583 | $ - | $ - |
| Other | - | - | 1,294 | 1,287 |
| | $ 925 | $ 583 | $ 1,294 | $ 1,287 |
| Expenses - Directly Incurred | | | | |
| Grants | $ 618,940 | $ 666,102 | $ 7,137 | $ 11,543 |
| Other services | - | - | 4,937 | 4,715 |
| | $ 618,940 | $ 666,102 | $ 12,074 | $ 16,258 |
| Tangible Capital Assets Transferred In (Out) | | | | |
| Ministry of Environment and Parks | $ - | $ - | $ 292 | $ - |
| Ministry of Service Alberta | - | - | 725 | - |
| Ministry of Seniors and Housing | - | - | 280 | - |
| Ministry of Infrastructure | - | - | (171) | - |
| | $ - | $ - | $ 1,126 | $ - |
| Payable to | | | | |
| Agriculture Financial Services Corporation | $ 98,534 | $ 43,785 | $ - | $ - |
| Environmental Protection and Enhancement Fund | 155,069 | 297,490 | - | - |
| Ministry of Envrionment and Parks | - | - | - | 37,978 |
| Ministry of Economic Development and Trade | - | - | 230 | 74 |
| Ministry of Advanced Education | - | - | 101 | 1,283 |
| Ministry of Education | - | - | 1 | - |
| Ministry of Culture and Tourism | - | - | - | 5 |
| | $ 253,603 | $ 341,275 | $ 332 | $ 39,340 |
| Receivable from | | | | |
| Agriculture Financial Services Corporation | $ 653 | $ 520 | $ - | $ - |
| Environmental Protection and Enhancement Fund | 137 | - | - | - |
| Ministry of Envrionment and Parks | - | - | - | 322 |
| Ministry of Economic Development and Trade | - | - | 90 | 2 |
| Ministry of Advanced Education | - | - | 14 | 34 |
| Ministry of Education | - | - | 85 | 147 |
| | $ 790 | $ 520 | $ 189 | $ 505 |
| Deferred Revenue from | | | | |
| Agriculture Financial Services Corporation | $ 381 | $ 424 | $ - | $ - |
| Ministry of Advanced Education | - | - | 47 | 15 |
| Ministry of Economic Development and Trade | - | - | 309 | 107 |
| Ministry of Education | - | - | 902 | 1,049 |
| | $ 381 | $ 424 | $ 1,258 | $ 1,171 |

The department also has transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements. Expenses are included in Schedule 8.

Note: The Department receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

Schedule 8

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

ALLOCATED COSTS

YEAR ENDED MARCH 31, 2017
(in thousands)

| Program | 2017 Expenses - Incurred by Others | | | | 2016 |
|---|---|---|---|---|---|
| | Expenses[1] | Accommodation Costs[2] | Legal Services[3] | Business Services[4] | Total Expenses | Total Expenses (Restated - Note 3) |
| Ministry Support Services | $ 23,564 | $ 4,146 | $ 386 | $ 5,552 | $ 33,648 | $ 35,504 |
| Agriculture Policy and Economics | 13,876 | 2,612 | 67 | 7 | 16,562 | 17,364 |
| Agriculture Environment and Water | 61,171 | 3,547 | 79 | 10 | 64,807 | 56,227 |
| Food Safety and Animal Health | 45,269 | 7,430 | 125 | 21 | 52,845 | 49,006 |
| Industry Development | 134,414 | 9,515 | 373 | 26 | 144,328 | 138,713 |
| Forests | 398,350 | 14,595 | 390 | 40 | 413,375 | 572,106 |
| Agriculture Insurance and Lending Assistance | | | | | | |
| Insurance and Lending | 290,043 | - | - | - | 290,043 | 232,223 |
| Agriculture Income Support | 85,666 | - | - | - | 85,666 | 46,489 |
| | $ 1,052,353 | $ 41,845 | $ 1,420 | $ 5,656 | $ 1,101,274 | $ 1,147,632 |

[1] Expenses - Directly Incurred as per Statements of Operations.

[2] Accommodation Costs, including grants in lieu of taxes, allocated by budgeted full-time equivalent employment.

[3] Legal Services Costs allocated by estimated costs incurred by each program.

[4] Business Services Costs, including charges for IT support, vehicles, air transportation, internal audit services and other services, allocated by costs in certain programs.

# Environmental Protection and Enhancement Fund

Financial Statements

Year Ended March 31, 2017


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AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Minister of Agriculture and Forestry

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Environmental Protection and Enhancement Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Environmental Protection and Enhancement Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 2, 2017

Edmonton, Alberta

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual (in thousands) | 2016 Actual |
|---|---|---|---|
| **Revenues** | | | |
| Government Transfers | | | |
| Government of Alberta Grants (Note 9) | $ - | $ 243,231 | $ 387,390 |
| Timber Royalities and Fees | 29,543 | 26,994 | 29,361 |
| Investment Income | 889 | 208 | 403 |
| | **30,432** | **270,433** | **417,154** |
| **Expenses** | | | |
| Forest Fires | 11,760 | 254,991 | 399,390 |
| Flat Top Complex | 15,028 | 13,436 | 15,749 |
| Forest Health Program | 490 | 526 | 326 |
| Environmental Emergency Response | 3,974 | 1,406 | 1,167 |
| Intercept Feeding and Fencing | 80 | - | 81 |
| Debt Servicing Costs | - | 74 | 441 |
| | **30,432** | **270,433** | **417,154** |
| Annual Surplus | - | - | - |
| Accumulated surplus, beginning of year | 150,000 | 150,000 | 150,000 |
| Accumulated surplus, end of year | **$ 150,000** | **$ 150,000** | **$ 150,000** |

*The accompanying notes and schedules are part of these financial statements.*

## ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

## STATEMENT OF FINANCIAL POSITION

## AS AT MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| **Financial Assets** | | |
| Cash (Note 4) | $ 41,419 | $ 11,674 |
| Due from Government of Alberta | 178,712 | 298,702 |
| Accounts Receivable | 14 | 54 |
| | **220,145** | **310,430** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities (Note 5) | 17,949 | 7,281 |
| Due to Government of Alberta | 50,074 | 150,441 |
| Liability for Contaminated Sites (Note 6) | 2,122 | 2,708 |
| | 70,145 | 160,430 |
| **Net Assets** | 150,000 | 150,000 |
| **Net Assets** | | |
| Accumulated Surplus | 150,000 | 150,000 |
| | **$ 150,000** | **$ 150,000** |

Contractual Obligations (Note 7)

*The accompanying notes and schedules are part of these financial statements.*

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

AS AT MARCH 31, 2017

| | 2017 Budget | 2017 Actual | 2016 Actual |
|---|---|---|---|
| | | (in thousands) | |
| Annual Surplus | $ - | $ - | $ - |
| **Increase in Net Financial Assets in the Year** | - | - | - |
| **Net Financial Assets, Beginning of Year** | - | 150,000 | 150,000 |
| **Net Financial Assets, End of Year** | $ - | $ 150,000 | $ 150,000 |

*The accompanying notes and schedules are part of these financial statements.*

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| | (in thousands) | |
| **Operating Transactions** | | |
| Annual Surplus | $ - | $ - |
| Decrease (Increase) in Accounts Receivable | 120,030 | (284,608) |
| (Decrease ) Increase in Accounts Payable and Accrued Liabilities | (89,699) | 149,395 |
| (Decrease) in Liability for Contaminated Sites | (586) | (1,432) |
| Cash Provided by (Applied to) Operating Transactions | **29,745** | **(136,646)** |
| **Increase (Decrease) in Cash** | **29,745** | **(136,646)** |
| **Cash at Beginning of Year** | **11,674** | **148,320** |
| **Cash at End of Year** | **$ 41,419** | **$ 11,674** |

*The accompanying notes and schedules are part of these financial statements.*

**Notes to the Financial Statements for the Year Ended March 31, 2017**

**Note 1 Authority**

The Environmental Protection and Enhancement Fund (the Fund) operates under the authority of the *Environmental Protection and Enhancement Act* (EPEA), Chapter E-12, Revised Statutes of Alberta 2000.

The components of the Fund are:

- Forest Fires
- Flat Top Complex
- Forest Health
- Environmental Emergency Response
- Intercept Feeding and Fencing

---

**Note 2 Summary of Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian public sector accounting standards.

**(a) Reporting Entity**

The reporting entity is the Fund, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the minister are the Department of Agriculture and Forestry and Agriculture Financial Services Corporation. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

**(b) Basis of Financial Reporting**

**Revenues**

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recognized as unearned revenue.

*Government transfers* - Transfers from all governments are referred to as government transfers.

Government transfers and the associated externally restricted income are recognized as deferred revenue if the eligibility criteria for the use of the transfer, or the stipulations together with the Fund's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the stipulations are met and, when applicable, the Fund complies with its communicated use of the transfer.

All other government transfers, without stipulations for the use of the transfer, are recognized as revenue when the transfer is authorized and the Fund meets the eligibility criteria (if any).

**Expenses**

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Grants are recognized as expenses when authorized, eligibility criteria, if any, are met and a reasonable estimate of the amount can be made.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Valuation of Financial Assets and Liabilities**

The Fund's financial assets and liabilities are generally measured as follows:

| Financial Statement Component | Measurement |
|---|---|
| Cash and cash equivalents | Cost |
| Accounts Receivable | Lower cost or net recoverable value |
| Accounts payable and accrued liabilities | Cost |

**Financial Assets**

The Fund has no financial assets measured in the fair value category and has not engaged in foreign currency transactions. The Fund has no re-measurement gains or losses and consequently has not presented a Statement of Re-measurement Gains and Losses.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets are limited to financial claims, such as advances to and receivables from other organizations.

**Liabilities**

Liabilities represent present obligations of the Fund to external organizations and individuals arising from transactions or events occurring before the year end. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

*Liability for Contaminated Sites* - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from an operation(s) that is no longer in productive use and is recognized when all of the following criteria are met:

i. an environmental standard exists
ii. contamination exceeds the environmental standard;
iii. the Fund is directly responsible or accepts responsibility;
iv. it is expected that future economic benefits will be given up; and
v. a reasonable estimate of the amount can be made.

**Measurement Uncertainty** (*in thousands*)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The Liability for Contaminated Sites, recognized as $2,122 in these financial statements, is subject to measurement uncertainty.

These estimates are based on the current site assessment, including the source and type of the contaminant. During remediation, further site assessments and/or sampling results may materially change the estimate. These changes could be the result of factors such as expanded area of contamination; a revised assessment of the source or introduction of a new source; re-sampling at deeper depths; and cost fluctuations where remedial work is conducted over several years.

**Note 3 Future Accounting Changes**

The Public Sector Accounting Board has issued the following standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. .

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosures standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

---

**Note 4 Cash**

Cash includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term securities with a maximum term to maturity of three years. As at March 31, 2017, securities held by the Fund have a time-weighted return of 0.8% per annum (2016: 0.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

---

**Note 5 Accounts Payable and Accrued Liabilities**
(in thousands)

| | 2017 | 2016 |
|---|---|---|
| Accounts Payable – General | $ 8,931 | $ 2,003 |
| Manpower | 439 | 626 |
| Grants | 2,500 | - |
| Supplies and Services | 6,079 | 4,652 |
| | $ 17,949 | $ 7,281 |

---

**Note 6 Liability for Contaminated Sites**
(in thousands)

The composition of liabilities is as follows:

| | Total | |
|---|---|---|
| | 2017 | 2016 |
| Liabilities, beginning of year | $ 2,708 | $ 4,140 |
| Change in estimate related to existing sites | - | (214) |
| Remediation work performed | (586) | (1,218) |
| Liabilities, end of year | $ 2,122 | $ 2,708 |

The Fund has transferred the liability amount of the contaminated sites for Cold Creek Ranger Station and West Arrowwood to the Department of Environment and Parks.

The Fund has undertook remediation work on behalf of the proponent at the Gas Plus site for soil and groundwater contamination due to health and environmental risks. The remedial work was scheduled to be completed in 2017. Due to factors outside of the contracted parties' control, the timeline for the reclamation has been extended to March 31, 2018. The unspent funding will be carried forward into the 2017/18 fiscal year. The liability estimate was based on a consultant's proposal to delineate, develop a contaminated site model, implement testing and a remedial action plan. Recovery of compensation equal to the remediation costs will be pursued through the courts. The probability of recovery of all or some of the costs has been assessed as low and therefore, the liability has not been reduced for any potential recoveries.

---

**Note 7 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the Fund to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2017 | 2016 |
|---|---|---|
| Obligations under Contracts and Programs | $ 29,431 | $ 31,348 |
| | $ 29,431 | $ 31,348 |

Estimated payment requirements for each of the next five years are as follows:

| | |
|---|---|
| 2017-18 | $ 8,316 |
| 2018-19 | 8,449 |
| 2019-20 | 7,064 |
| 2020-21 | 3,972 |
| 2021-22 | 1,630 |
| | $ 29,431 |

---

**Note 8 Net Assets**
(in thousands)

The net assets for the Fund are capped at $150,000 in accordance with a Treasury Board decision (TBDMAR251998).

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**Note 9 Transfer from the Department of Agriculture and Forestry**
(in thousands)

The following revenue was received or is receivable from the Department of Agriculture and Forestry.

| | 2017 | 2016 |
|---|---|---|
| Forest Fires | $ 243,231 | $ 387,390 |

**Note 10 Budget Figures**
(in thousands)

The revenue and expense budget amounts disclosed in these financial statements agree with the 2016-17 Government Estimates.

**Note 11 Approval of the Financial Statements**

The financial statements were approved by the senior financial officer and the deputy minister.

Schedule 1

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

SCHEDULE TO FINANCIAL STATEMENTS

EXPENSES - DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2017

| | 2017 Budget | 2017 Actual (in thousands) | 2016 Actual |
|---|---|---|---|
| Salaries, Wages and Employee Benefits | $ 10,342 | $ 35,899 | $ 39,191 |
| Supplies and Services | 16,590 | 223,879 | 352,337 |
| Grants | 3,500 | 10,581 | 25,399 |
| Financial Transactions and Other | - | 74 | 227 |
| | $ 30,432 | $ 270,433 | $ 417,154 |

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

SCHEDULE TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

YEAR END[illegible] MARCH 31, 2017
(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Fund.

The Fund had the following transactions with related parties reported on the Statement of Operations and the Statement of financial position at the amount of consideration agreed upon between the related parties.

| | Entities in the Ministry | | Other Entities | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Grants | $ 243,231 | $ 387,390 | $ - | $ - |
| | $ 243,231 | $ 387,390 | $ - | $ - |
| Expenses | | | | |
| Grants | $ - | $ - | $ - | $ - |
| Agriculture and Forestry | 209 | - | - | - |
| Environment and Parks | - | - | 1,355 | 2,017 |
| Service Alberta | - | - | 372 | 317 |
| Treasury Board and Finance | - | - | 74 | - |
| Education | - | - | - | 7 |
| Alberta Health Services | - | - | 1 | - |
| School Board AFS | - | - | 122 | 644 |
| Post Secondary Institutions | - | - | 1 | 637 |
| | $ 209 | $ - | $ 1,925 | $ 3,622 |
| Payable to | | | | |
| Agriculture and Forestry | $ 137 | $ - | $ - | $ - |
| Environment and Parks | - | - | 775 | 1,249 |
| Treasury Board and Finance | - | - | 50,074 | 150,000 |
| | $ - | $ - | $ 50,849 | $ 151,249 |
| Receivable from | | | | |
| Agriculture and Forestry | $ 155,069 | $ 298,702 | $ - | $ - |
| Municipal Affairs | - | - | 23,640 | - |
| Alberta Environmental Monitoring Evaluation and Reporting Agency | - | - | - | 1 |
| Environment and Parks | - | - | 3 | 1,177 |
| | $ 155,069 | $ - | $ 23,643 | $ 1,178 |

# Agriculture Financial Services Corporation

Financial Statements

Year Ended March 31, 2017


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AUDITOR GENERAL *Alberta*

## Independent Auditor's Report

*To the Board of Directors of the Agriculture Financial Services Corporation*

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 1, 2017

Edmonton, Alberta

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## STATEMENT OF FINANCIAL POSITION

### AS AT MARCH 31, 2017
(dollars in thousands)

| | 2017 | 2016 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash | $ 429,653 | $ 320,661 |
| Accounts receivable (Note 3) | 10,493 | 4,715 |
| Due from Government of Alberta | 98,534 | 43,784 |
| Due from Other Provincial Governments (Note 4) | 1,941 | - |
| Due from Government of Canada | 196,969 | 194,275 |
| Loans receivable (Note 5) | 2,240,468 | 2,161,466 |
| Investments (Note 6) | 2,124,401 | 1,891,416 |
| | 5,102,459 | 4,616,317 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (Note 7) | 21,979 | 17,285 |
| Indemnities payable (Note 8) | 333,922 | 167,535 |
| Borrowing from Government of Alberta (Note 9) | 2,206,540 | 2,146,362 |
| Deferred revenue (Note 10) | 5,810 | 6,932 |
| | 2,568,251 | 2,338,114 |
| Net Financial Assets (Net Debt) | 2,534,208 | 2,278,203 |
| **NON-FINANCIAL ASSETS** | | |
| Tangible capital assets (Note 11) | 37,269 | 38,666 |
| Prepaid expenses | 4,263 | 3,958 |
| | 41,532 | 42,624 |
| Net assets before deferred capital contributions | 2,575,740 | 2,320,827 |
| Spent deferred capital contributions (Note 10) | $ 19,475 | $ 19,002 |
| Net assets at end of year | $ 2,556,265 | $ 2,301,825 |

Contingencies, Contractual Obligations and Commitments (Note 13)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Bev Yee, Interim Chair of the Board of Directors
Jamie Curran, Interim Board Member
Ed Knash, Interim CEO
Darryl Kay, Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2017
(dollars in thousands)

| | 2017 | | 2016 |
|---|---|---|---|
| | Budget | Actual (Schedule 1) | Actual |
| **Revenues:** | | | |
| Premiums from insured persons | $ 301,014 | $ 370,334 | $ 298,890 |
| Interest | 93,927 | 87,739 | 88,398 |
| Contribution from Government of Alberta | 304,930 | 375,481 | 278,535 |
| Contribution from Government of Canada | 245,884 | 332,624 | 220,510 |
| Investment income | 43,171 | 41,954 | 44,454 |
| Fees and other income | 14,755 | 18,416 | 15,250 |
| | 1,003,681 | 1,226,548 | 946,037 |
| **Expenses:** | | | |
| AgriInsurance | 398,642 | 568,035 | 551,083 |
| Agriculture Income Support | 128,618 | 187,835 | 86,669 |
| Lending | 109,576 | 100,327 | 107,152 |
| Hail Insurance | 53,824 | 55,840 | 36,814 |
| Livestock Insurance | 13,647 | 24,080 | 11,916 |
| Wildlife Damage Compensation | 5,751 | 35,991 | 6,825 |
| | 710,058 | 972,108 | 800,459 |
| Net operating results | $ 293,623 | $ 254,440 | $ 145,578 |

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2017

(dollars in thousands)

| | 2017 | | 2016 |
|---|---|---|---|
| | Budget | Actual | Actual |
| Net operating results | $ 293,623 | $ 254,440 | 145,578 |
| Acquisition of tangible capital assets | (7,816) | (7,366) | (7,075) |
| Amoritization of tangible capital assets (Note 11) | 10,315 | 8,729 | 10,001 |
| (Gain) Loss on disposal of tangible capital assets | - | (19) | (82) |
| Proceeds on sale tangible capital assets | - | 53 | 104 |
| Change in prepaid expenses | (190) | (305) | 165 |
| Change in spent deferred capital contributions | (250) | 473 | 345 |
| Increase in net financial assets in the year | 295,682 | 256,005 | 149,036 |
| Net financial assets, beginning of year | 2,227,433 | 2,278,203 | 2,129,167 |
| Net financial assets, end of year | $ 2,523,115 | $ 2,534,208 | $ 2,278,203 |

The accompanying notes and schedules are part of these financial statements.

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## STATEMENT OF CASH FLOWS

## YEAR ENDED MARCH 31, 2017

(dollars in thousands)

| | 2017 | 2016 |
|---|---|---|
| Operating activities: | | |
| Net operating results | $ 254,440 | $ 145,578 |
| Non-cash items included in operating results | | |
| Amortization of capital assets | 8,729 | 10,001 |
| Deferred capital contribution recognized as revenue | (5,355) | (7,005) |
| Amortization of premiums and discounts | 1,781 | (1,915) |
| Allowance for doubtful accounts and for losses | 2,006 | 4,839 |
| Gain on sale of investments | (7,340) | (8,356) |
| Loss on disposal of capital assets | (19) | (82) |
| Unearned revenue received | 5,810 | 6,932 |
| Changes in assets and liabilities relating to operations | 100,464 | (21,584) |
| Net cash provided by operating activities[1] | 360,516 | 128,408 |
| Investing activities: | | |
| Proceeds from repayments of loans receivable | 387,272 | 426,548 |
| Loan disbursements | (470,480) | (528,026) |
| Purchase of investments | (1,205,287) | (807,196) |
| Proceeds on disposal of investments | 978,962 | 759,321 |
| Net cash utilized by investing activities | (309,533) | (149,353) |
| Capital activities: | | |
| Purchase of tangible capital assets | (7,366) | (7,075) |
| Proceeds on disposal of tangible capital assets | 53 | 104 |
| Net cash utilized by capital activities | (7,313) | (6,971) |
| Financing activities: | | |
| Borrowing from the Government of Alberta | 1,020,000 | 783,000 |
| Contributions restricted for capital | 5,828 | 7,350 |
| Repayment of borrowing from the Government of Alberta | (960,506) | (658,642) |
| Net cash provided by financing activities | 65,322 | 131,708 |
| Net increase in cash during the year | 108,992 | 103,792 |
| Cash at beginning of year | 320,661 | 216,869 |
| Cash at end of year | $ 429,653 | $ 320,661 |

(1) Net cash provided by operating activities includes $68,512 (2016 $70,377) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000. AFSC is exempt from income taxes under the *Income Tax Act*.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 5 and 8).

(e) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the Statement of Financial Position date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5 or more is capitalized. Computer software acquired from external sources at a cost of $100 or more and software developed by the Corporation costing $500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporations incremental borrowing rate.

Tangible capital assets are written down when conditions indicate that they no longer contribute to AFSC's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(n) AgriInsurance Net Assets Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

(o) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) PS3260 Liability for Contaminated Sites

In June 2010, the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The Corporation early adopted this accounting standard as of April 1, 2012. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 7) is a liability of $2,925 for the estimated remaining remediation (2016 $2,555).

(r) Net Debt Model

Net debt model has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities. A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

Note 3 Accounts Receivable

| | 2017 | 2016 |
|---|---|---|
| AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs: | | |
| Overpayments | $ 7,846 | $ 9,488 |
| Administration fees | 252 | 465 |
| Premiums from insured persons | | |
| AgriInsurance program | 2,914 | 1,693 |
| Livestock insurance program | 2,204 | 757 |
| Hail insurance program | 580 | 366 |
| Other | 5,945 | 1,963 |
| | 19,741 | 14,732 |
| Allowances for doubtful accounts | | |
| At beginning of year | (10,017) | (14,088) |
| Decrease (increase) for this year | 469 | 3,418 |
| Write offs, net of recoveries | 300 | 653 |
| At end of year | (9,248) | (10,017) |
| | $ 10,493 | $ 4,715 |

Included in the allowances for doubtful accounts is $7,846 (2016 $9,488) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

Note 4 Due from Other Provincial Governments

Due from provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due from provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

| | 2017 | 2016 |
|---|---|---|
| Premiums collected | $ (13,497) | $ (8,096) |
| Indemnities paid | 15,640 | 5,756 |
| Administration costs receivable | 438 | 820 |
| Reinsurance premiums | 1,713 | 914 |
| Reinsurance recoveries | (2,353) | - |
| | $ 1,941 | $ (606) |

Note 5 Loans Receivable

Loans receivable are comprised of the following:

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Farm | Commercial | Total | Total |
| Performing loans - non concessionary | $ 1,844,345 | $ 363,188 | $ 2,207,533 | $ 2,132,005 |
| Performing loans - concessionary | 2,985 | - | 2,985 | 3,996 |
| Impaired loans | 2,268 | 38,429 | 40,697 | 41,535 |
| | 1,849,598 | 401,617 | 2,251,215 | 2,177,536 |
| Accrued interest | 24,374 | 1,686 | 26,060 | 26,483 |
| Loan discount | (39) | - | (39) | (51) |
| | 1,873,933 | 403,303 | 2,277,236 | 2,203,968 |
| Allowances | (8,002) | (28,766) | (36,768) | (42,502) |
| Net carrying value | $ 1,865,931 | $ 374,537 | $ 2,240,468 | $ 2,161,466 |

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

Allowances for doubtful accounts for loans are as follows:
Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $4,690,358 (2016 $4,289,439).

| | Farm | Commercial | 2017 | 2016 |
|---|---|---|---|---|
| At beginning of year | $ 9,748 | $ 32,754 | $ 42,502 | $ 36,744 |
| Increase (decrease) for the year | (1,718) | 4,193 | 2,475 | 8,257 |
| Write-offs | (28) | (8,181) | (8,209) | (2,499) |
| At end of year | $ 8,002 | $ 28,766 | $ 36,768 | $ 42,502 |
| Specific allowance | $ 1,095 | $ 22,804 | $ 23,899 | $ 26,076 |
| General allowance | 6,907 | 5,962 | 12,869 | 16,426 |
| | $ 8,002 | $ 28,766 | $ 36,768 | $ 42,502 |

Note 5 Loans Receivable (continued)

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

| Effective annual Interest Rate | 2017 | 2016 |
|---|---|---|
| Less than or equal to 2% | $ 177,463 | $ 125,313 |
| 2.01% to 3.00% | 450,635 | 378,294 |
| 3.01% to 4.00% | 659,537 | 631,527 |
| 4.01% to 5.00% | 477,080 | 484,461 |
| 5.01% to 6.00% | 316,742 | 340,313 |
| 6.01% to 7.00% | 146,694 | 185,986 |
| 7.01% to 8.00% | 17,103 | 24,710 |
| Over 8% | 5,922 | 6,881 |
| | 2,251,176 | 2,177,485 |
| Accrued interest | 26,060 | 26,483 |
| Allowance for doubtful accounts | (36,768) | (42,502) |
| | $ 2,240,468 | $ 2,161,466 |
| Weighted average annual interest rate | 3.90% | 4.09% |

Note 6 Investments

| | 2017 | 2016 |
|---|---|---|
| Bonds and debentures: | | |
| Government of Canada, direct and guaranteed | $ 952,752 | $ 822,501 |
| Other provincial, direct and guaranteed | 216,590 | 200,711 |
| | 1,169,342 | 1,023,212 |
| Corporate securities: | | |
| Asset backed securities, AAA rated | 553,687 | 494,797 |
| Senior bank notes | 389,773 | 361,486 |
| | 943,460 | 856,283 |
| | 2,112,802 | 1,879,495 |
| Accrued interest | 11,599 | 11,921 |
| | $ 2,124,401 | $ 1,891,416 |

The fair value of investments at March 31, 2017 is $2,123,136 (2016 $1,902,350). Fair value is based on quoted market prices excluding accrued interest.

Note 6 Investments (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

| | Term to Maturity [1] | | | | |
|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | 2017 | 2016 |
| Bonds and debentures | $ 647 | $ 1,075,256 | $ 93,439 | $ 1,169,342 | $ 1,023,212 |
| Yield [2] | 0.79% | 1.01% | 1.80% | 1.08% | 0.90% |
| Corporate Securities | 3,049 | 940,411 | - | 943,460 | 856,283 |
| Yield [2] | 1.19% | 1.63% | - | 1.62% | 1.54% |
| | 3,696 | 2,015,667 | 93,439 | 2,112,802 | 1,879,495 |
| Accrued interest | 4 | 10,765 | 830 | 11,599 | 11,921 |
| | $ 3,700 | $ 2,026,432 | $ 94,269 | $ 2,124,401 | $ 1,891,416 |

[1] Term to maturity classifications are based on contractual maturity date of the security.

[2] Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 7 Accounts Payable and Accrued Liabilities

| | 2017 | 2016 |
|---|---|---|
| Supplies and services | $ 15,180 | $ 9,561 |
| Salaries, wages and employee benefits | 5,968 | 6,137 |
| Reinsurance Premiums to Government of Canada | 20 | 19 |
| Amounts payable under Western Livestock Price Insurance program | - | 606 |
| Other | 811 | 962 |
| | $ 21,979 | $ 17,285 |

Prior year due to provincial governments is included in accounts payable and accrued liabilities.

Note 8 Indemnities Payable

| | 2017 (Note 2(l)) | 2016 (Note 2(l)) |
|---|---|---|
| AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs | | |
| Current claim year | $ 182,995 | $ 124,365 |
| Prior claim years | 48,433 | 24,599 |
| | 231,428 | 148,964 |
| AgriInsurance | 77,445 | 14,112 |
| Wildlife compensation | 24,651 | 678 |
| Hail insurance | 396 | 797 |
| Livestock price insurance | 2 | 2,984 |
| | $ 333,922 | $ 167,535 |

Estimated indemnities payable of $333,922 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $155,092 to $211,720.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on probable payments for claims not yet processed.

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of $23,462 to $142,222.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

| | 2017 | 2016 |
|---|---|---|
| Effective annual Interest Rate | | |
| Less than or equal to 2% | $ 370,000 | $ 345,000 |
| 2.01% to 3.00% | 583,000 | 483,000 |
| 3.01% to 4.00% | 759,238 | 809,238 |
| 4.01% to 5.00% | 460,752 | 460,751 |
| 5.01% to 6.00% | 18,006 | 33,513 |
| | 2,190,996 | 2,131,502 |
| Accrued interest | 14,668 | 14,503 |
| Unamortized premium | 876 | 357 |
| | $ 2,206,540 | $ 2,146,362 |
| Weighted average annual interest rate | 3.13% | 3.28% |

Principal repayments due in each of the next five years and thereafter are as follows:

| | | |
|---|---|---|
| Year ending March 31, | 2018 | $ 168,780 |
| | 2019 | 186,092 |
| | 2020 | 293,109 |
| | 2021 | 225,000 |
| | 2022 | 181,432 |
| | Thereafter | 1,136,583 |
| | | $ 2,190,996 |

The estimated fair value of borrowings as at March 31, 2017 is $2,325,485 (2016 $2,300,316). Fair value is an approximation of market value to the holder.

## Note 10 Deferred Revenue

| | 2017 | 2016 |
|---|---|---|
| Unearned revenue | $ 5,810 | $ 6,932 |
| Spent deferred capital contributions | 19,475 | 19,002 |
| | $ 25,285 | $ 25,934 |

Unearned revenue

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Government of Canada | Non-government | Government of Alberta | Total | Total |
| Balance at beginning of year | $ - | $ 6,932 | $ - | $ 6,932 | $ 4,349 |
| Received during year | - | 5,810 | - | 5,810 | 6,932 |
| Less amounts recognized | - | (6,932) | - | (6,932) | (4,349) |
| Balance at end of year | $ - | $ 5,810 | $ - | $ 5,810 | $ 6,932 |

Spent deferred capital contributions

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Government of Canada | Non-government | Government of Alberta | Total | Total |
| Balance at beginning of year | $ 10,935 | $ 776 | $ 7,291 | $ 19,002 | $ 18,657 |
| Transferred capital assets received | 3,497 | - | 2,331 | 5,828 | 7,350 |
| Less amounts recognized as revenue | (3,155) | (97) | (2,103) | (5,355) | (7,005) |
| Balance at end of year | $ 11,277 | $ 679 | $ 7,519 | $ 19,475 | $ 19,002 |

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

## Note 11 Tangible Capital Assets

| | Land | Building | Furniture and Fixtures | Computer Equipment and Software | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Estimated Useful Life | Indefinite | 25 - 40 years | 5 - 10 years | 2 - 10 years | | |
| Cost | | | | | | |
| At beginning of year | $ 1,827 | $ 10,200 | $ 12,015 | $ 103,427 | $ 127,469 | $ 121,877 |
| Additions | - | 19 | 84 | 7,263 | 7,366 | 7,075 |
| Disposals | - | - | - | (498) | (498) | (1,483) |
| | 1,827 | 10,219 | 12,099 | 110,192 | 134,337 | 127,469 |
| Accumulated amortization | | | | | | |
| At beginning of year | - | 5,422 | 7,792 | 75,589 | 88,803 | 80,263 |
| Amortization expense | - | 386 | 1,074 | 7,269 | 8,729 | 10,001 |
| Disposals | - | | - | (464) | (464) | (1,461) |
| | - | 5,808 | 8,866 | 82,394 | 97,068 | 88,803 |
| Net book value at March 31, 2017 | $ 1,827 | $ 4,411 | $ 3,233 | $ 27,798 | $ 37,269 | |
| Net book value at March 31, 2016 | $ 1,827 | $ 4,565 | $ 4,436 | $ 27,838 | | $ 38,666 |

Computer equipment and software costs include $7,543 (2016 $5,998) of costs incurred that are not amortized because they are still in the development stage.

## Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of $6,413 for the year ended March 31, 2017 (2016 $6,646).

At December 31, 2016, the Alberta Management Employees Pension Plan reported a surplus of $402,033 (2015 surplus $299,051), the Alberta Public Service Pension Plan reported a surplus of $302,975 (2015 deficiency $133,188) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $50,020 (2015 deficiency $16,305). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

| | 2017 | 2016 |
|---|---|---|
| Loan guarantees | $ 13,112 | $ 27,465 |
| Less allowances for losses | - | (150) |
| Total contingencies | $ 13,112 | $ 27,315 |

Included in loan guarantees is $9,336 (2016 $11,922) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

The Corporation has been named in three (2016 none) claims of which the outcomes are not determinable. There are specified amounts totaling $275 (2016 nil). The resolution of the indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Contractual Obligations

| | 2017 | 2016 |
|---|---|---|
| Reinsurance | 23,879 | 25,420 |
| Operating leases | 12,747 | 7,917 |
| Other contracts | 7,061 | 3,462 |
| Total contractual obligations | $ 43,687 | $ 36,799 |

The operating lease contractual obligations are for accommodations with terms up to twelve years.

Commitments

| | 2017 | 2016 |
|---|---|---|
| Approved, undisbursed loans | $ 187,126 | $ 208,362 |

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

| | 2017 | 2016 |
|---|---|---|
| Loans receivable | $ 2,240,468 | $ 2,161,466 |
| Investments | 2,124,401 | 1,891,416 |
| Due from Government of Canada | 196,969 | 194,275 |
| Due from Government of Alberta | 98,534 | 43,784 |
| Accounts receivable | 10,493 | 4,715 |
| Loan guarantees | 13,112 | 27,465 |
| Total commitments | $ 4,683,977 | $ 4,323,121 |

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

Note 14 Financial Instruments and Financial Risk Management (continued)

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Dollar | Percentage | Dollar | Percentage |
| Loans receivable by individual sector: | | | | |
| Grain and Oilseeds | $ 1,163,570 | 52% | $ 1,103,696 | 51% |
| Cattle | 609,191 | 27% | 568,043 | 26% |
| Accommodations and Other Services | 147,267 | 7% | 132,867 | 6% |
| Manufacturing | 98,126 | 4% | 101,996 | 5% |
| Other Livestock | 72,254 | 3% | 81,430 | 4% |
| Trade - Retail and Wholesale | 42,441 | 2% | 50,415 | 2% |
| Commercial and Industrial | 30,565 | 1% | 37,016 | 2% |
| Transportation and Warehousing | 24,488 | 1% | 26,718 | 1% |
| Professional Services | 19,601 | 1% | 24,632 | 1% |
| Other | 69,733 | 3% | 77,155 | 4% |
| Allowance | (36,768) | -1% | (42,502) | -2% |
| | $ 2,240,468 | 100% | $ 2,161,466 | 100% |

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

Note 14 Financial Instruments and Financial Risk Management (continued)

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

| | Scheduled Repayment[1] | | | | Not[2] Interest Rate Sensitive | 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | Over 10 Years | | Total | Total |
| Loan balances | $ 223,417 | $ 652,827 | $ 624,264 | $ 750,480 | $ (10,520) | $ 2,240,468 | $ 2,161,466 |
| Yield | 3.69% | 3.75% | 3.78% | 3.26% | - | 3.68% | 3.88% |
| Borrowing from Government of Alberta | $ 168,780 | $ 885,633 | $ 886,583 | $ 250,000 | $ 15,544 | $ 2,206,540 | $ 2,146,362 |
| Yield[3] | 3.28% | 3.28% | 3.21% | 3.04% | - | 3.25% | 3.42% |
| Net gap | $ 54,637 | $ (232,806) | $ (262,319) | $ 500,480 | $ (26,064) | $ 33,928 | $ 15,104 |

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

## Note 15 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the Corporation.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | 2017 | 2016 |
|---|---|---|
| Revenues: | | |
| Grants | $ 375,481 | $ 278,535 |
| Other | - | - |
| | $ 375,481 | $ 278,535 |
| Expenses: | | |
| Accommodation | $ 641 | $ 661 |
| Other services | 2,066 | 2,372 |
| Interest | 67,900 | 69,214 |
| | $ 70,607 | $ 72,247 |
| Payable to: | | |
| Ministry of Agriculture and Forestry | $ 650 | $ 520 |
| Ministry of Treasury Board and Finance | 2,206,540 | 2,146,362 |
| Ministry of Service Alberta | - | 1 |
| Receivable from: | | |
| Ministry of Agriculture and Forestry | 98,534 | 46,563 |
| Deferred Revenue from: | | |
| Ministry of Agriculture and Forestry | 7,519 | 7,291 |
| | $ 2,313,243 | $ 2,200,737 |

## Note 16 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(m)):

| | AgriInsurance Reinsurance Fund of Alberta | | AgriInsurance Reinsurance Fund of Canada for Alberta | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Opening net assets | $ 33,641 | $ 33,641 | $ 34,530 | $ 34,530 |
| Contributions | 1 | - | 1 | - |
| Closing net assets | $ 33,642 | $ 33,641 | $ 34,531 | $ 34,530 |

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgriInsurance Fund in Schedule 1.

## Note 17 Budget

The budget reported in the Statement of Operations was included in the 2016/17 Government Estimates.

## Note 18 Comparative Figures

The 2016 figures have been reclassified and restated where necessary to conform to 2017 presentation.

Schedule 1

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2017
(dollars in thousands)

| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AgriInsurance Note 2(n) | AgriInsurance Note 2(n) | Agriculture Income Support | Agriculture Income Support | Lending | Lending | Hail Insurance | Hail Insurance | Livestock Insurance | Livestock Insurance | Wildlife Damage Compensation | Wildlife Damage Compensation | Total | Total |
| Revenues: | | | | | | | | | | | | | | |
| Premiums from insured persons | $ 302,691 | $ 247,760 | $ - | $ - | $ - | $ - | $ 45,361 | $ 44,574 | $ 22,282 | $ 6,556 | $ - | $ - | $ 370,334 | $ 298,890 |
| Interest | 549 | 485 | 84 | (234) | 86,976 | 88,003 | 93 | 98 | 37 | 46 | - | - | 87,739 | 88,398 |
| Contribution from Government of Alberta | 258,738 | 214,921 | 95,695 | 46,444 | 11,672 | 12,851 | - | - | 806 | 784 | 18,580 | 3,535 | 375,491 | 278,535 |
| Contribution from Government of Canada | 222,140 | 187,487 | 92,039 | 28,515 | - | - | - | - | 1,199 | 1,169 | 17,246 | 3,339 | 332,624 | 220,510 |
| Investment income | 40,969 | 43,554 | 275 | 241 | 419 | 350 | 138 | 127 | 175 | 189 | (22) | (7) | 41,954 | 44,454 |
| Fees and other income | 85 | 150 | 10,330 | 10,464 | 2,915 | 3,513 | 2,884 | 352 | 2,120 | 713 | 82 | 58 | 18,416 | 15,250 |
| | 825,172 | 694,357 | 198,413 | 85,430 | 101,982 | 104,717 | 48,476 | 45,151 | 26,619 | 9,457 | 35,886 | 6,925 | 1,226,548 | 946,037 |
| Expenses: | | | | | | | | | | | | | | |
| Indemnities | 501,310 | 485,831 | 174,069 | 71,893 | - | - | 51,304 | 32,623 | 18,400 | 8,423 | 35,201 | 6,412 | 780,284 | 604,982 |
| Salaries, wages and employee benefits | 26,447 | 26,927 | 10,343 | 11,839 | 20,642 | 20,341 | 1,248 | 995 | 1,179 | 1,337 | 371 | 261 | 60,230 | 61,700 |
| Supplies and services | 11,816 | 11,059 | 3,961 | 4,093 | 5,742 | 6,125 | 908 | 794 | 719 | 510 | 181 | 126 | 23,327 | 22,707 |
| Amortization of tangible capital assets | 3,451 | 3,246 | 999 | 2,669 | 2,878 | 2,739 | 744 | 708 | 613 | 613 | 44 | 26 | 8,729 | 10,001 |
| Interest | - | - | - | - | 68,590 | 69,690 | - | - | - | - | - | - | 68,590 | 69,690 |
| Reinsurance | 24,204 | 23,887 | - | - | - | - | 1,569 | 1,844 | 3,186 | 1,009 | - | - | 28,942 | 26,540 |
| Allowance for doubtful accounts and for losses (Note 3 & 4) | 807 | 333 | (1,537) | (3,825) | 2,475 | 8,257 | 67 | 50 | - | 24 | 194 | - | 2,006 | 4,839 |
| | 568,035 | 551,083 | 187,835 | 86,669 | 100,327 | 107,152 | 55,840 | 36,814 | 24,080 | 11,916 | 35,991 | 6,825 | 972,108 | 800,459 |
| Net operating results | 257,137 | 143,274 | 578 | (1,239) | 1,655 | (2,435) | (7,364) | 8,337 | 2,539 | (2,459) | (105) | 100 | 254,440 | 145,578 |
| Net assets at beginning of year | 2,174,140 | 2,030,866 | 643 | 1,882 | 81,617 | 84,052 | 20,070 | 11,733 | 23,956 | 26,415 | 1,399 | 1,299 | 2,301,825 | 2,156,247 |
| Net assets at end of year | $ 2,431,277 | $ 2,174,140 | $ 1,221 | $ 643 | $ 83,272 | $ 81,617 | $ 12,706 | $ 20,070 | $ 26,495 | $ 23,956 | $ 1,294 | $ 1,399 | $ 2,556,265 | $ 2,301,825 |

Schedule 2

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## SCHEDULE OF SALARIES AND BENEFITS

## YEAR ENDED MARCH 31, 2017

(dollars in thousands)

| | 2017 | | | | 2016 |
|---|---|---|---|---|---|
| | Base Salary[1] | Other Cash Benefits[2] | Other Non-cash Benefits[3] | Total | Total |
| Chairman of Board[4] | $ 13 | $ - | $ - | $ 13 | $ 49 |
| Board members[5] | 31 | - | 1 | 32 | 137 |
| President and Managing Director | 518 | 184 | 136 | 838 | 698 |
| Executive Members | | | | | |
| Interim CEO[6] | - | 39 | 3 | 42 | - |
| Chief Operating Officer | 305 | 30 | 79 | 414 | 346 |
| Vice-President, Innovation & Product Development | 243 | 249 | 64 | 556 | 337 |
| Chief Financial Officer | 224 | 4 | 61 | 289 | 289 |
| Chief Information Officer | 174 | 4 | 49 | 227 | 233 |
| Chief Communication and Marketing Officer[7] | 23 | 217 | 4 | 244 | 204 |
| Senior Manager, Human Resources & Communications | 149 | 1 | 43 | 193 | 125 |
| Vice-President, Legal & Compliance, General Counsel[8] | 108 | 3 | 31 | 142 | - |
| Interim Vice-President, Innovation & Product Development[9] | 85 | 17 | 25 | 127 | - |
| Interim Vice-President, Business & Strategy[10] | 89 | - | 25 | 114 | - |
| Interim Vice-President, Operation & Sales[11] | 74 | 9 | 23 | 106 | - |

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments including retirement allowances. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to two and one half (2.5) months during 2016/17 (twelve in 2015/16).

(5) The amounts relate to two and one half (2.5) months during 2016/17 (twelve in 2015/16).

(6) Position was for nine and one half (9.5) months during 2016/17.

(7) Position was for one (1) month during 2016/17 (twelve in 2015/16). Included in other cash benefits is $200 in severance benefits paid as a result of a termination agreement.

(8) Position was for seven (7) months during 2016/17.

(9) Position was for five (5) months during 2016/17.

(10) Position was for four and one half (4.5) months during 2016/17.

(11) Position was for five (5) months during 2016/17.

# OTHER FINANCIAL INFORMATION

* Information on this page has not been audited *

## Statement of Remissions, Compromises and Write-Offs for the Year Ended March 31, 2017

The following statement has been prepared pursuant to Section 23 of the *Financial Administration Act*. The statement includes all remissions, compromises and write-offs made or approved during the fiscal year.

**Write-offs**

| | | |
|---|---|---|
| Departmental accounts receivable | $ | - |
| Agriculture Financial Services Corporation | | (8,508,848) |
| **Total remissions, compromises and write-offs** | **$** | **(8,508,848)** |

The following statement has been prepared pursuant to Section 75 of the *Financial Administration Act*. The statement includes all guarantees, indemnities, payments and recoveries made during the fiscal year.

## Statement of Guarantees and Indemnities Given by Provincial Corporations for the Year Ended March 31, 2017

| Program/Borrower | | Amount of Guarantee or Indemnity | | Payments | | Recoveries |
|---|---|---|---|---|---|---|
| Agriculture Financial Services Corporation | $ | 13,861,735 | $ | 128,830 | $ | - |
| **Total guarantees and indemnities given** | **$** | **13,861,735** | **$** | **128,830** | **$** | **-** |

## Statutory Report: *Public Interest Disclosure Act*

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the *Act*:

a) The number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

b) The number of investigations commenced by the designated officer as a result of disclosures;

c) In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2016-17 for the ministry, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.

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